Report of the
Comptroller and Auditor General of India
on
Compliance of Fiscal Responsibility and Budget Management Act, 2003

for the year 2014-15

Union Government (Civil)
Department of Economic Affairs
(Ministry of Finance)
Report No. 27 of 2016

CONTENTS

PREFACE

Section 7A of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, as amended in May 2012, provides that the Central Government may entrust the Comptroller and Auditor General of India to review periodically as required, the compliance of the provisions of this Act and such reviews shall be laid before both House of Parliament. An amendment to the FRBM Rules 2004 was notified on 31 October 2015. Rule 8 of the FRBM (Amendment) Rules provides that the Comptroller and Auditor General of India shall carry out an annual review of the compliance of the provisions of the FRBM Act and the Rules made thereunder by the Central Government, beginning with the financial year 2014-15, and the Report shall be submitted to the President, who shall cause them to be laid on the table of both Houses of Parliament.

This is the first report of the Comptroller and Auditor General of India relating to review of the compliance of the provisions of the FRBM Act and the Rules made thereunder by the Central Government for the year ended March 2015.

The report contains significant results arising from the review. The instances mentioned in this report are those, which came to notice in the course of test audit for the period 2014-15 as well as earlier years. Matters relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the auditing standards issued by the Comptroller and Auditor General of India.

EXECUTIVE SUMMARY

Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted by the Parliament in August 2003. The objective of introducing FRBM Act, 2003 was to institutionalize fiscal discipline, reduce fiscal deficit, improve macro-economic management and the overall management of the public funds by moving towards a balanced budget. Due to global economic crisis and adverse circumstances, the implementation of FRBM Act was put on hold in February 2009. An amendment to the FRBM Act was made by the Parliament in May 2012. An important aspect of the amendment was introduction of Section 7A, which provides for entrustment to the Comptroller and Auditor General of India, the periodical review of compliance of the provisions of the Act by the Union Government.

What the Report covers

The present report discusses the compliance by the Union Government of the provisions of FRBM Act, 2003 and the Rules made thereunder for the financial year 2014-15. We have examined various amendments made in the FRBM Act and Rules and analysed the trends and targets of various fiscal indicators as set out in the Act/Rules from time to time. During the review Audit examined (i) consistency of rules framed under the provisions of the Act; (ii) achievement of targets by the Government as set out in the FRBM Act and Rules; (iii) achievement of targets of receipts and expenditure as set out in various fiscal statements; and (iv) issues of transparency and disclosures made by the Government.

Major observations

Important audit observations relating to compliance of the provisions of the Act and Rules made thereunder, and also on other related topics, are detailed below:

Deviation from the Act and Rules

- For financial year 2014-15, in respect of effective revenue deficit and revenue deficit, the annual reduction targets set out by the Government in the Budget were not in accordance with the provisions of the Act.

(Para 2.2)

- There were inconsistencies in prescribed targets dates of fiscal indicators under FRBM Act/Rules and target dates set out in Medium Term Fiscal Policy Statement.

(Para 2.3)

- There was inconsistency between provisions contained in the FRBM Act and Rules made thereunder in respect of assumption of additional liabilities.

(Paras 2.4)

Progress in achievement of FRBM targets

- For financial year 2014-15, Government was able to achieve the targets as set in Medium Term Fiscal Policy Statements in respect of revenue and fiscal deficits. However, in respect of effective revenue deficit, the target could not be achieved.

(Paras 3.1.3, 3.2.3 and 3.3.3)

- During the course of audit of accounts for FY 2014-15 of the Union Government, certain transactions and financial eventualities were noticed which had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder.

(Para 3.2.5)

- Due to deficiency in the mechanism of estimating provisions on grants for creation of capital assets, in certain test checked Ministries/ Departments, the resultant estimation of effective revenue deficit target in FY 2014-15 was incorrect.

(Para 3.3.4)

- As a result of existence of varying practices in treatment of expenditure on grants for creation of capital assets and incorrect classification of expenditure in certain welfare schemes, the effective revenue deficit was understated during the financial year 2014-15.

(Paras 3.3.5.1 and 3.3.5.2)

- From FY 2011-12 onwards, the outstanding liability in terms of GDP outstripped the targeted level as contained in the Medium Term Fiscal Policy Statement. Further, due to understatement of liabilities of ₹ 6,70,210 crore in the Public Account, the total liabilities of the Union Government were contained at 46.2 *per cent* of GDP, which otherwise would have stood at 51.6 *per cent* of GDP in FY 2014-15.

(Paras 3.4.2 and 3.4.3)

Analysis of projections in fiscal policy statements

- Projection for FY 2014-15 included in Medium Term Fiscal Policy Statement in respect of gross tax revenue, outstanding liabilities, and disinvestment varied significantly from the actuals. Similarly, projection under various heads of expenditure for FY 2014-15 included in Medium Term Expenditure Framework Statements of 2013-14 varied significantly in BE and RE of 2014-15.

(Paras 4.1 and 4.2)

Disclosure and Transparency in fiscal operations

- Recommendation of Twelfth Finance Commission relating to inclusion of eight additional statements in the Union Government Accounts for greater transparency, has not been acted upon, despite in-principle acceptance of the recommendation by the Government.

(Para 5.1.1)

- Refunds of ₹ 1,17,495 crore (including interest on refunds of taxes) were made from gross direct tax collection in FY 2014-15 but this aspect was not disclosed in the Government accounts.

(Para 5.1.2)

- Disclosure statements mandated under the FRBM Act and the Rules made thereunder placed before the Parliament for FY 2014-15 and earlier years contained inconsistencies relating to understatement of non-tax revenue; variations in closing and opening balances of physical and financial assets; overstatement of loans to foreign governments; and discrepancies in the estimation of provision on grants for creation of capital assets.

(Para 5.2)

Recommendations

Based on audit observations contained in the Report, the following recommendations are made:

(i) *To address the issues of inconsistency in the FRBM Act/Rules, the Government may carry out suitable amendments.*

(ii) *The Government should follow the format of Form D-6 as prescribed under the FRBM Rules.*

(iii) *Budgetary provisioning as well as their accountal need to be in harmony with the codal provisions relating to classification structure of accounts to avoid misclassification of expenditure.*

(iv) *The Government may transfer specific purpose levies/cess collected to the funds earmarked for the purpose.*

(v) *A mechanism for recognizing the result of annual operations of NSSF and its impact on the Government finances may be put in place.*

(vi) *To facilitate correct identification and booking of expenditure as grants on creation of capital assets, the Government may consider defining the criteria for classification of expenditure as grants for creation of capital assets and its compliance by the Ministries/Departments.*

(vii) *The Government may exclude such grants, which does not lead to creation of assets owned by the grantee organisations, from categorising as grants for creation of capital asset.*

(viii) *The Government may strengthen the process of making underlying assumptions for projection of receipt and expenditure in various fiscal policy statements to insulate them from frequent changes and to seamlessly integrate the projection in the Budget.*

(ix) *Necessary steps may be taken to append additional statements in the Union Government Finance Accounts as suggested by the 12th Finance Commission to ensure greater transparency in the accounts.*

(x) *Disclosure statements prepared under the FRBM Act and Rules made thereunder should be complete in all respect and transparent.*

Chapter 1: Introduction

1.1 Background

The issue of management of fiscal deficit assumed importance in India in the late eighties when the combined deficit of the Union and State Governments rose to levels above 7 *per cent* of Gross Domestic Product (GDP). In the year 1999-2000, the combined fiscal deficit of the Union and State Governments stood at about 9.8 *per ce*nt of GDP, while revenue deficit was about 6.8 *per cent.*

Fiscal deficit of the Union was over 6 *per cent* of GDP in the first half of the eighties which widened further in the second half, reaching almost 9 *per cent* at the end of financial year (FY) 1986-87. It was about 8.3 *per cent* in FY 1990-91. During the period 1994-99, the average fiscal deficit of the Union was over 6 *per cent.* Moreover, the total debt liability of the Union increased from ₹ 6,30,071 crore in 1994-95 to ₹ 10,12,486 crore in 1998-99, showing an increase of 61 *per cent.*

In view of the continuing fiscal stress on the economy and the need to contain the fiscal deficit within a reasonable limit, the Union Government, in January 2000, set up a Committee to go into the various aspects of the fiscal system and to recommend a draft legislation on fiscal responsibility. Based on recommendation of the Committee, the Government, in December 2000, introduced Fiscal Responsibility and Budget Management (FRBM) Bill, which became Act in August 2003.

1.2 Fiscal Responsibility and Budget Management Act, 2003 and Rules, 2004

The objective of FRBM Act, 2003 was to institutionalize fiscal discipline, reduce fiscal deficit, improve macro-economic management and the overall management of the public funds by moving towards a balanced budget. FRBM Rules, 2004, framed under Section 8 of the Act came into force in July 2004. FRBM Act was enacted to provide for following responsibilities of the Central Government:

- ✓ to ensure inter-generational equity in fiscal management and long term macro-economic stability by achieving sufficient revenue surplus and removing fiscal impediments in the effective conduct of monetary policy;
- ✓ prudential debt management consistent with fiscal sustainability through limits on the Central Government borrowings, debt and deficits;
- ✓ greater transparency in fiscal operations of the Central Government; and
- ✓ conducting fiscal policy in a medium-term framework and for matters connected therewith or identical thereto.

To achieve the above, the Act and the Rules stipulated following targets to be achieved by the Union Government in respect of major fiscal indicators as indicated in **Box-1**.

Box-1: Targets for various fiscal indicators

Fiscal Indicators	Target
Revenue Deficit (RD)	Elimination of RD by 31 March 2008 and thereafter to build up adequate revenue surplus. To achieve the target of RD the Central Government shall reduce the RD by an amount equivalent to 0.5 *per cent* or more of the GDP[1] at the end of each financial year beginning with 2004-05.
Fiscal Deficit (FD)	To bring down the FD to not more than three *per cent* of GDP at the end of 31 March 2008. To achieve the target of FD the Central Government shall reduce the FD by an amount equivalent to 0.3 *per cent* or more of the GDP at the end of each financial year beginning with 2004-05.
Guarantees	The Government shall not give guarantee aggregating to an amount exceeding 0.5 *per cent* of GDP in any financial year beginning with 2004-05.
Liabilities	The Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for FY 2004-05 and in each subsequent financial year, the limit of 9 *per cent* of GDP shall be progressively reduced by at least one percentage point of GDP.
Borrowings from Reserve Bank of India	The Act imposes restrictions on the borrowing by the Central Government from Reserve Bank of India (RBI).

Note: The position of the fiscal indicators from 2004-05 to 2014-15 are given in Annex 3.1. In respect of liabilities the figures are available at Table-7 and Graph-5 and in respect of guarantees position is available in Graph-6.

[1] As per FRBM Rules GDP means Gross Domestic Product at current price.

Besides, the Act and Rules require the Government to lay in both Houses of Parliament three policy statements along with the Annual Financial Statement and the Demands for Grants, as briefly narrated in **Box-2** below.

Box-2: Fiscal Policy Statements

Medium Term Fiscal Policy (MTFP) Statement	MTFP Statement containing three year rolling targets for fiscal indicators viz. RD, FD, Tax Revenue and Total Outstanding Liabilities as a percentage to GDP with specifications of underlying assumptions, including assessment of sustainability relating to balance between revenue receipt and revenue expenditure; use of capital receipts including market borrowings for generating productive assets.
Fiscal Policy Strategy (FPS) Statement	FPS Statement containing policies of the Central Government for the ensuing financial year, relating to taxation, expenditure, market borrowings and other liabilities, lending and investment, pricing of administered goods and services, securities and description of other activities etc., an evaluation of current policies vis-à-vis fiscal management principles, intra-year benchmarks for assessing trends in receipts and expenditure relating to annual targets and Budget Estimates (BE).
Macro-economic Framework (MF) Statement	MF Statement containing an assessment of growth in GDP, fiscal balance of the Union Government and external sector balance of economy as reflected in current account of balance of payment.

In the Budget speech of 8 July 2004, it was brought out that 2008-09 would be a more credible terminal year, which would also coincide with the term of the then Government. Accordingly, through the Finance Act 2004, amendment in Section 4 of the FRBM Act was made, thereby the target dates for revenue deficit and fiscal deficit were shifted to 31 March 2009.

1.3 Temporary hold of FRBM Act

Beginning from FY 2005-06, the fiscal deficit showed signs of improvement and was reduced to a level of 2.7 *per cent* of GDP (as per Budget at a Glance) in FY 2007-08 (refer Graph-2 of Para 3.2.2). In February 2009, the Government put on hold temporarily the fiscal consolidation process citing global economic crisis and adverse circumstances. During the two financial years, i.e. FY 2008-09 and 2009-10, the fiscal deficit again rose to the level of 6.0 and 6.4 *per cent* of GDP (as per Budget at a Glance) respectively. The outstanding liability of the Government during these two years' period also hovered around 49 to 50 *per cent* of GDP (refer Graph-5 of Para 3.4.2).

1.4 Introduction of renewed road-map under amended FRBM Act

The 13th Finance Commission (FC) in its report (December 2009) for the award period 2010-15 had presented renewed fiscal consolidation path for the Centre. 13th FC recommended zero and three *per cent* targets of revenue and fiscal deficit respectively to be achieved by the end of March 2014 followed by revenue surplus of 0.5 *per cent* of GDP by 2014-15.

An amendment in the FRBM Act was passed by the Parliament in May 2012, wherein a new fiscal indicator namely 'effective revenue deficit' was introduced, to be worked out by excluding revenue expenditure incurred on 'grants for creation of capital assets' from the revenue deficit. In addition, it envisaged elimination of effective revenue deficit by 31 March 2015 and thereafter build up adequate effective revenue surplus and also to reach revenue deficit of not more than two *per cent* of GDP by 31 March 2015, among other measures. Further, in order to eliminate the effective revenue deficit by 31 March 2015, the Central Government shall reduce such deficit by an amount equivalent to 0.8 per cent or more of the GDP at the end of each financial year beginning with FY 2013-14.

Subsequent to the amendment of May 2012 in the Act, the Government set up a committee chaired by Dr. Vijay L. Kelkar, who was charged with the task of introducing mid-term corrections for fiscal year 2012-13 and to chart a medium term framework on this basis, for the remaining time horizon of the 13th FC. The Kelkar Committee in its report (September 2012) had recommended fiscal roadmap of zero effective revenue deficit; two *per cent* revenue deficit and 3.9 *per cent* fiscal deficit by the end of FY 2014-15.

Recommendations of the Committee with regard to proposed reforms on expenditure and receipts were accepted by the Government (October 2012). However, the Government decided (May 2013) to achieve the fiscal deficit target of not more than 3 *per cent* of GDP by 2016-17. Accordingly, amendments in FRBM Rules indicating new targets for fiscal consolidation were notified in May 2013 whereby the target date for elimination of effective revenue deficit, achieving the target of revenue deficit of not more than two *per cent* of GDP was fixed as 31 March 2015 and for fiscal deficit of not more than three *per cent* of GDP as 31 March 2017. The annual rates of gradual reduction in the deficit parameters were also revised upwardly (revenue deficit from 0.5 *per cent* or more of GDP to 0.6 *per cent* or more and fiscal deficit from 0.3 *per cent* or more of GDP to 0.5 *per cent* or more). In June 2015, the FRBM Rules were further amended to achieve the targeted levels in respect of the three deficit indicators by 31 March 2018 and also the annual rate of gradual reduction were relaxed in contrast to the upward revision made in the Rules in May 2013 (revenue deficit from 0.6 *per cent* or more of GDP to 0.4 *per cent* or more, fiscal deficit from 0.5 *per cent* or more of GDP to 0.4 *per cent* or more and effective revenue deficit from 0.8 *per cent* or more of GDP to 0.5 *per cent* or more).

1.5 Amended FRBM Act and obligations of the Union Government

Since the enactment of the Act in 2003 and taking into account numerous amendments made in the Act and Rules from time to time, including the latest amendments in the Act (as of May 2015) and the Rules (as of June 2015), the status of the target dates for various fiscal indicators stand as indicated in **Box-3** below:

Box-3: Revised targets for various fiscal indicators

Indicators	Targets
Effective Revenue Deficit (ERD)	ERD is to be eliminated by 31 March 2018 with annual reduction by an amount equivalent to 0.5 *per cent* or more of GDP at the end of each financial year beginning with FY 2015-16.
Revenue Deficit (RD)	RD of not more than two *per cent* of GDP by 31 March 2018 with annual reduction by an amount equivalent to 0.4 *per cent* or more of GDP at the end of each financial year beginning with FY 2015-16.
Fiscal Deficit (FD)	FD of not more than three *per cent* of GDP at the end of 31 March 2018 with annual reduction by an amount equivalent to 0.4 *per cent* or more of GDP at the end of each financial year beginning with FY 2015-16.

Since the introduction of the Act, no change has been made in targets related to guarantees, total liabilities and borrowings from RBI (shown in **Box-1**). The amended FRBM Act and Rules[2] also requires the Government to lay down another Statement, viz. Medium Term Expenditure Framework Statement

[2] Sections 6 and 7 of the FRBM Act and Rule 6 of FRBM Rules

before both Houses of Parliament, immediately following the Session of Parliament in which the other three policy statements (shown in **Box-2**) were laid, containing the following information:

Medium Term Expenditure Framework (MTEF) Statement	MTEF Statement containing three year rolling target for prescribed expenditure indicators, with specification of underlying assumptions and risks involved.

Further, the FRBM Act and Rules (as amended from time to time) requires laying of quarterly review reports, in addition to certain disclosures in the prescribed formats, which are indicated in **Annex-1.1**.

1.6 Review of compliance of provisions of FRBM Act by the Comptroller and Auditor General of India (CAG)

13th FC had recommended that the Centre may institute a process of independent review and monitoring of the implementation of FRBM process. Accordingly, a new Section 7A was inserted through FRBM Amendment Act (May 2012) which provides that ***the Central Government may entrust the CAG to review periodically as required, the compliance of the provisions of this Act and such reviews shall be laid before both Houses of Parliament.*** An amendment in the Rules was further made in October 2015 to carry out the effect of amendment in the Act made in May 2012. The amended Rules provide that, the CAG shall carry out an annual review of the compliance of the provisions of the Act and the Rules made thereunder by the Central Government beginning with the Financial Year 2014-15. The review shall include:

(i) analysis of achievement and compliance of targets and priorities set out in the Act and the Rules made thereunder, Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement, Macro-economic Framework Statement and Medium Term Expenditure Framework Statement;

(ii) analysis of trends in receipts, expenditure and macro-economic parameters in relation to the Act and the Rules made thereunder;

(iii) comments related to classification of revenue, expenditure, assets or liabilities having a bearing on the achievement of targets set out in the Act and the Rules made thereunder; and

(iv) analysis of disclosures made by the Central Government to ensure greater transparency in its fiscal operations.

1.7 Audit Objectives

Audit objectives for the review of the compliance of the provisions of the Act were to examine whether:

a) the Rules framed under the Act are consistent with the provisions of the Act;

b) the Government achieved the targets of fiscal indicators set out in the FRBM Act and Rules made thereunder effectively;

c) the classification of revenue, expenditure, assets and liabilities are in line with established rules and principles;

d) the projections of components of receipts and expenditure in various fiscal policy statements are based on concrete assumptions; and

e) the disclosures made by the Central Government to ensure transparency in fiscal operations are adequate.

1.8 Audit Scope and Methodology

In terms of Government of India (Allocation of Business) Rules 1961, the Ministry of Finance, Department of Economic Affairs is responsible for preparation of Central Budget other than Railway Budget including supplementary/excess grants; monitoring of budgetary position of the Central Government; credit, fiscal and monetary policies; and administration of the Fiscal Responsibility and Budget Management Act 2003, among other business of the Government of India.

Accordingly, the field audit was conducted during the period December 2015 to February 2016. During this period, records of the Ministry of Finance, Department of Economic Affairs were examined, including examination of the FRBM Act and Rules made thereunder and various amendments carried out from time to time, disclosures contained in prescribed Forms D-1 to D-6 for the year 2014-15 presented along with the Budgets for the year 2015-16 and 2016-17, as well as other budget and accounts related publications.

As brought out in para 1.6, the CAG is mandated to carry out an annual review of the compliance of the provisions of the Act and the Rules made thereunder by the Central Government beginning with the financial year 2014-15. Accordingly, the focus has been on the targets and transactions relating to this particular financial year. However, matters relating to periods prior to 2014-15 as well as subsequent years were also examined wherever necessary. The draft report was issued to the Ministry of Finance on 29 February 2016. An exit conference with the officers of the Ministry of Finance, Department of Economic Affairs was held on 13 April, 2016, wherein the audit findings and recommendations were discussed. On receipt of replies from the Ministry, the same together with rebuttal were incorporated and the revised draft report was again made available to the Ministry on 23 May 2016. Subsequent replies of the Ministry on the revised draft report received on 24 June 2016 have also been incorporated in this report.

1.9 Audit Criteria

The main sources of audit criteria used for the purpose of review were drawn from documents, such as the following:

- FRBM Act, 2003 as amended from time to time.
- FRBM Rules, 2004 as amended from time to time.
- Budget documents including various statements submitted by Government under FRBM Rules and disclosures made to ensure transparency in fiscal operations.
- Quarterly Review Reports submitted by the Ministry of Finance in Parliament.
- Union Government Finance Accounts compiled by the Controller General of Accounts under Ministry of Finance, Department of Expenditure.

In addition, the reports of the Finance Commissions, High Level Expert Committee on Efficient Management of Public Expenditure, and other Committees on Fiscal Consolidation have also been consulted to determine the audit criteria.

1.10 Structure of the Report

The present report is the first annual review by the CAG as per Rule 8 of FRBM (Amendment) Rules 2015 to examine compliance of provisions of the Act by the Government for FY 2014-15. The findings of Audit are discussed in Chapters 2 to 5.

- Chapter 2 of this Report deals with the issues where deviations from the Act and Rules were noticed.
- Chapter 3 analyses the extent of achievement of various fiscal indicators during FY 2014-15 as compared to the targets set under the Act and Rules.
- Chapter 4 examines the receipts and expenditure of the Union Government for FY 2014-15 vis-à-vis projections contained in various fiscal policy statements, Budget at a Glance, Annual Financial Statement and Union Government Finance Accounts.
- Chapter 5 contains observations relating to adequacy and accuracy of disclosures mandated under the Act and Rules and also issues of transparency in fiscal operations.

Chapter 2: Deviation from the Act and Rules

In the FRBM Act 2003 and FRBM Rules 2004 (as amended from time to time) various fiscal targets were set. In this chapter, we have discussed the issues regarding deviations from provisions of the Act and the Rules and inconsistencies between the Act and the Rules, followed by recommendations wherever considered necessary.

2.1 Continuous deferment of targets

Fiscal targets prescribed in the original FRBM Act 2003 were to be achieved by 31 March 2008 which were deferred to 31 March 2009 in 2004. However, in 2009, the Government decided to put on hold temporarily the process of fiscal consolidation citing reason of global meltdown necessitating adjustment of fiscal policy to take care of exceptional circumstances through which the economy was passing and promised to return to the FRBM target for fiscal deficit at the earliest and as soon as the negative effects of the global crisis on the economy have been overcome. Accordingly, the FRBM Act amended through the Finance Act 2012 (May 2012) and rules made thereunder notified in May 2013, contained revised targets for Revenue Deficit and Effective Revenue Deficit, to be achieved by 31 March 2015. Further, in the MTFP Statement placed along with Budget for FY 2014-15, the Government shifted target for achievement of revenue deficit to March 2017 citing the reason 'below five percent growth in GDP in the last two years'. Through Finance Act 2015, amendment was made in the FRBM Act by which the target dates for achievement of all the three deficit indicators were again extended to March 2018. The reasons given were 'emerging government priorities and compositional shift in the fiscal relations between the Centre and States' following the recommendations of the Fourteenth Finance Commission. Thus, the Government has continuously been deferring the targets under the Act immediately after its enactment.

2.2 Non-adherence to annual reduction targets in 2014-15

Rule 3 of amended FRBM Rules notified in May 2013 required that in order to achieve the deficit targets as set out in Section 4 of the Act, the Central

Government shall reduce the effective revenue deficit, revenue deficit and fiscal deficit targets by an amount equivalent to 0.8 *per cent*, 0.6 *per cent* and 0.5 *per cent* or more of the GDP respectively[3] at the end of each financial year beginning with FY 2013-14.

It may be mentioned that the Budget for FY 2013-14 was already placed in February 2013, whereas the amended FRBM Rules were notified subsequently in May 2013 setting out the amended annual reduction targets in respect of three deficit indicators beginning with FY 2013-14. Taking into account the amended annual reduction target of three deficit indicators, the **Table-1** below analyses the compliance of annual reduction in FY 2014-15 as set by the Government in MTFP Statement for 2014-15 vis-à-vis RE for FY 2013-14.

Table-1: Annual Reduction Targets

(As percentage of GDP)

Fiscal Indicators	RE 2013-14	Target in BE 2014-15	Annual Reduction
Effective Revenue Deficit	2.0	1.6	0.4
Revenue Deficit	3.3	2.9	0.4
Fiscal Deficit	4.6	4.1	0.5

Source: MTFP Statement for 2014-15

The annual reduction target in respect of two deficit indicators, i.e. effective revenue deficit and revenue deficit were only 0.4 *per cent* of GDP in Budget of 2014-15 with reference to the revised estimates for FY 2013-14 as against required reduction of 0.8 *per cent* and 0.6 *per cent* respectively as specified in FRBM Rules applicable during that period. As such, the annual reduction targets envisaged in the Budget of 2014-15 were not in accordance with provisions contained in the Rules.

The Ministry stated (May 2016) that the MTFP Statement for the year 2014-15 had acknowledged an imbalance on revenue account and it was clarified that the difficult macro-economic conditions in the international and domestic market prevailing over the year resulted into lesser than mandated correction in deficit. It further stated that later in the year 2015, in sync with the existing macro-economic realities and need for creating additional fiscal space to increase public investment, the FRBM Act was amended and new target date was set for achieving deficit targets. It also added that annual reduction targets have been re-calibrated. In Budget 2016-17, annual reduction in

[3] These stipulations were further relaxed in June 2015 through amendment in the Act.

estimates of FD is in line with the FRBM Act, whereas, it is more than mandated in respect of RD and ERD.

While taking into consideration the reply of the Ministry in the above para as well as the position brought out in the MTFP Statement for FY 2014-15, which bring out the impediments having a bearing on the achievement of the annual reduction targets, it may be mentioned that the reduction targets as specified in the FRBM Rules applicable during that period could not be achieved. The subsequent recalibration of the reduction targets as mentioned by the Ministry was brought into effect in June 2015 and the annual reduction was to begin from FY 2015-16.

2.3 Inconsistency in fiscal targets between MTFP Statement and FRBM Act/Rules

Section 4 of FRBM Act and Rule 3 of FRBM Rules specifies the targets for the three fiscal indicators along with target date for their achievement. MTFP Statement laid along with the Budget also contains three year rolling targets for these fiscal indicators.

In this regard, following were observed in respect of target dates relating to effective revenue deficit and revenue deficit after introduction of renewed roadmap, which has also been summarized in **Table-2** hereunder.

- FRBM Act as amended in May 2012 (through Finance Act 2012) set the target of eliminating the effective revenue deficit and reach the revenue deficit of not more than two *per cent* of GDP by 31 March 2015.
- MTFP Statement laid in Parliament in February 2013 along with Budget 2013-14 indicated that this target will be achieved at the end of FY 2015-16.
- FRBM Rules as amended and notified in May 2013 again set the said targets of effective revenue deficit and revenue deficit as 31 March 2015.
- MTFP Statement laid in Parliament in July 2014 along with Budget 2014-15 showed that the targets of effective revenue deficit and revenue deficit will be achieved at the end of FY 2016-17.

- In February 2015 through Finance Bill 2015, the Government proposed changes in the FRBM Act and Rules and targets for achieving the deficit indicators were shifted to 31 March, 2018. The Finance Bill 2015 became the Finance Act in May 2015.

Table-2: Inconsistency in target dates

		As set out in				
	%age of GDP	**Amendment Act of May 2012**	**MTFP Statement of February 2013 (in Budget for FY 2013-14)**	**FRBM Rules notified in May 2013**	**MTFP Statement of July 2014 (in Budget for FY 2014-15)**	**Finance Bill 2015 (in Budget for FY 2015-16)**
Effective revenue deficit	Nil	***To be achieved by***				
		31 March 2015	31 March 2016	31 March 2015	31 March 2017	31 March 2018
Revenue deficit	Not more than 2					

Thus, between February 2013 and February 2015, different target dates were set in respect of effective revenue deficit and revenue deficit. It may be seen that MTFP Statements for 2013-14 and 2014-15 were having target dates inconsistent with target dates set out in FRBM Act and Rules applicable during that period.

The Ministry stated (May 2016) that the deferment of targets referred to in audit observation was in respect of rolling targets/projections for next two years (medium-term). It also stated that while preparing Budget for particular financial year, the Government provides the rolling targets of specified fiscal indicators viz., FD. RD, ERD, Tax-GDP ratio etc. in MTFP Statement. It added that rolling targets are set on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure etc. and variation in these macro-economic parameters necessitates re-fixing of fiscal targets in the budget year. Therefore, an advance amendment to the Act on the basis of rolling targets is unwarranted, since situation may change by the time Budget is presented.

The reply needs to be viewed in the light of the position that the MTFP Statement which provides the underlying assumptions of fiscal indicators along with rolling targets should have been aligned with the corresponding fiscal targets stipulated in the FRBM Act/Rules.

2.4 Inconsistency in FRBM Act and Rules – on assumption of additional liabilities

Rule 3(4) of the FRBM Rules requires that the Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for FY 2004-05 and in each subsequent financial year, the limit of 9 *per cent* of GDP shall be progressively reduced by at least one percentage point of GDP. Thus, according to application of this Rule, with gradual reduction of one percentage point of GDP, from the level of 9 *per cent*, beginning from financial year 2004-05, the Government should not assume any additional liabilities from the financial year 2013-14 onwards. However, given the prevalence of deficit budgeting in the Union Government, a significant portion of fiscal deficit is to be met from borrowings and hence creation of additional liabilities cannot be ruled out. Thus, Rule 3(4) with regard to assumption of additional liabilities is inconsistent and needs to be aligned with the Rule 3(2) regarding fiscal deficit, which stipulates bringing down fiscal deficit at the level of not more than of 3 *per cent* of GDP by 31 March 2018.

The Ministry stated (May 2016) that Rule 3(4) needs to be seen in the context that with a fiscal deficit target of 3 per cent of GDP, creation of additional liability cannot be avoided, but it will decline with reduction in fiscal deficit. It also added that additional liability was to be progressively reduced by at least one percentage point of GDP from the financial year 2005-06 onwards till the ultimate fiscal deficit target of not more than 3 per cent of GDP is achieved, and not that additional liability will be completely eliminated.

The reply of the Ministry does not address the issue. Subsequent amendments in Rule 3(2) shifted the target of bringing down fiscal deficit at the level of not more than of 3 *per cent* of GDP to 31 March 2018. Thus, with the shifting of target dates for achieving the fiscal deficit, appropriate amendments could have concurrently been brought in Rule 3(4) also to align the related provisions in the Rules.

Recommendation: *To address the issues of inconsistency in the FRBM Act/Rules, the Government may carry out suitable amendments.*

2.5 Inconsistency in format of disclosure statement (D-6)

Rule 6(1) of amended FRBM Rules requires that in order to ensure greater transparency in its fiscal operation in the public interest, the Central Government shall at the time of presenting the Annual Financial Statement and the Demands for Grants, make disclosures in prescribed Form (D-6) with regard to expenditure incurred on grants for creation of capital assets (refer **Annex 1.1**). This disclosure statement is presented in the Expenditure Budget Volume-I in a different format from FY 2011-12, although the Rule 6(1) was notified in May 2013. This disclosure statement appended in the Expenditure Budget Volume-I from FY 2011-12 onwards has a different format which varies from the prescribed Form (D-6). The disclosure does not provide details of actual expenditure data for previous year (Y-1), as required under the format prescribed by FRBM Rules.

The Ministry accepted (May 2016) the audit observation.

***Recommendation:** The Government should follow the format of Form D-6 as prescribed under the FRBM Rules.*

Conclusion

After introduction of FRBM Act, the Government had been continuously deferring the fiscal targets. During 2014-15, in respect of effective revenue deficit and revenue deficit, the annual reduction targets set out by the Government were not in accordance with the provisions of the Act/Rules. Between February 2013 and February 2015, the target dates set out in MTFP Statement for effective revenue deficit and revenue deficit were inconsistent with the FRBM Act and Rules. Further, there is inconsistency between provisions made under the FRBM Act and Rules made thereunder on assumption of additional liabilities.

Chapter 3: Progress in achievement of FRBM targets

The Government set the targets for various fiscal indicators in terms of percentage of GDP. For FY 2014-15, the GDP figure was assumed by the Government based on the GDP growth recorded in previous year viz. 2013-14 (old series with 2004-05 as the base year). Accordingly, in the Budget at a Glance 2014-15 presented on 10 July 2014, GDP was projected at ₹ 128,76,653 crore assuming 13.4 per cent growth over the advance estimates of 2013-14 (₹ 113,55,073 crore) released by the Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation. However, the CSO on 30 January 2015 notified the new series of national accounts containing the new series of GDP, revising the base year from 2004-05 to 2011-12. As a result of this revision, the GDP data for FY 2014-15 (old series with 2004-05 as base year) was not available. Consequently, for analysis of targets for FY 2014-15, the first revised estimates (R1) of GDP (new series with 2011-12 as base year) released by CSO on 8 February 2016 has been adopted in this report, and for earlier years the old series of GDP figures have been adopted.

This chapter analyses the extent of achievement of various fiscal indicators during FY 2014-15 as compared to the targets set in the FRBM Act/Rules (as amended from time to time). Besides, the trend analysis from FY 2005-06 in respect of various fiscal indicators/parameters have also been made in this chapter.

3.1 Revenue Deficit

Section 2(e) of FRBM Act defines revenue deficit as the difference between revenue expenditure and revenue receipts, which indicates increase in the liabilities of the Central Government without corresponding increase in the assets of the Government.

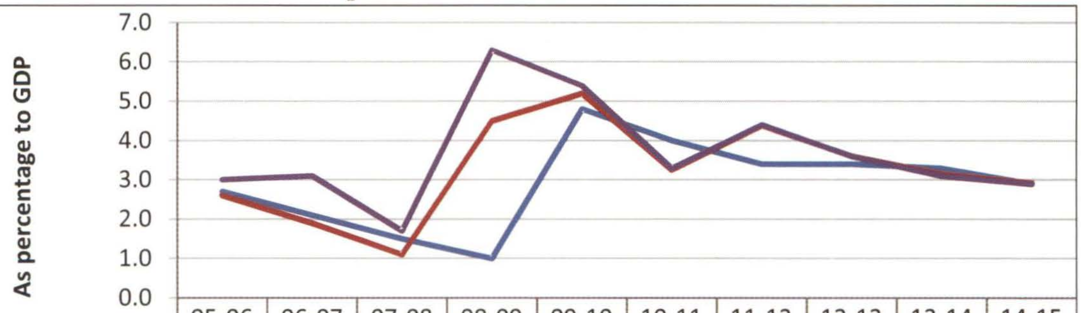
3.1.1 Revenue Deficit target

The FRBM Act as notified in August 2003 had stipulated elimination of revenue deficit by March 2008. Through Finance Act 2004 (September 2004), amendment was made in the FRBM Act and the target was shifted to March 2009. In FRBM Act (amended through Finance Act 2012), the target of elimination was modified with a new target to restrict revenue deficit to not more than two *per cent* of GDP by 31 March, 2015. In the Union Budgets for 2013-14, through MTFP Statement, the target of restricting revenue deficit to not more than two *per cent* of GDP was shifted to March 2016. This was further shifted to March 2017 through the MTFP Statement placed along with the Budget of 2014-15. This target was further extended to March 2018 through the Finance Act 2015.

3.1.2 Trend of Revenue Deficit

Following **Graph-1** shows the trend of revenue deficit as a percentage of GDP over the period from 2005-06 to 2014-15:

Graph-1: Trend of Revenue Deficit: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
BE/Target	2.7	2.1	1.5	1.0	4.8	4.0	3.4	3.4	3.3	2.9
Actuals(BAG)	2.6	1.9	1.1	4.5	5.2	3.3	4.4	3.6	3.1	2.9
Actuals(UGFA)	3.0	3.1	1.7	6.3	5.4	3.3	4.4	3.6	3.1	2.9

Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG) and Union Government Finance Accounts (UGFA). For calculation of Actuals (UGFA), GDP (old data series) upto 2013-14 has been adopted and for 2014-15, R_1 GDP figure (new series) released in February 2016 has been adopted.

*Note: Data in absolute terms for deficits is at **Annex 3.1**. The actual deficit figures as per Union Government Finance Accounts in some years differ from those shown in the Budget at a Glance because the Budget at a Glance figures are not being computed exactly as per the definition of revenue deficit provided in the FRBM Act.*

The analysis of **Graph**[4] and related data above reflects that up to FY 2007-08, the Revenue Deficit was treading in line with fiscal consolidation path envisaged in the FRBM Act/Rules. However, in FY 2008-09 a spike was

[4] In Budget at a Glance, the figures of deficit are worked out by disregarding/netting certain transactions contrary to the definitions provided in the FRBM Act. In this context, para 3.2.3 further elucidates the background.

noticed, thereafter the revenue deficit as percentage of GDP showed a trend converging towards the budgeted level.

3.1.3 Revenue Deficit during 2014-15

For FY 2014-15, the Government had set revenue deficit target at 2.9 *per cent* of GDP which showed 0.4 *per cent* reduction from the level of 3.3 *per cent* for the year 2013-14 (as discussed in Para 2.3). The calculation for computing the revenue deficit is as under:

Table-3 : Revenue Deficit Estimate and Actuals: 2014-15

Component	Revenue Expenditure (1)	Revenue Receipt (2)	Revenue Deficit (RD) (1-2)	RD as % of GDP (As in Budget at a Glance/MTFP)
	(₹ in crore)			
Budget Estimates	15,68,111	11,89,763	**3,78,348**	**2.9**
Actuals	14,66,992	11,01,472	**3,65,520**	**2.9**
Variation with reference to Budget Estimates	-1,01,119 (-6.45%)	-88,291 (-7.42%)	**-12,828 (-3.39%)**	**-**

Source: Budget at a Glance

Note: As per Union Government Finance Accounts, the revenue deficit for FY 2014-15 works out at ₹3,66,228 crore (Difference between revenue expenditure of ₹16,95,137 crore and revenue receipt of ₹13,28,909 crore).

The actual revenue deficit in 2014-15 was contained at the budgeted level, but the required target under the FRBM Act/Rules, viz. not more than 2 *per cent* of GDP by 31 March 2015 was breached. Further, the annual reduction target equivalent to 0.6 *per cent* or more of GDP also could not be achieved, as the reduction in 2014-15 was 0.4 *per cent* with reference to RE 2013-14, as discussed in para 2.2.

3.2 Fiscal Deficit

Section 2(a) of FRBM Act, defines fiscal deficit as the excess of total disbursements from the Consolidated Fund of India (CFI), excluding repayment of debt, over total receipts into the Fund (excluding the debt receipts), during a financial year.

3.2.1 Fiscal Deficit target

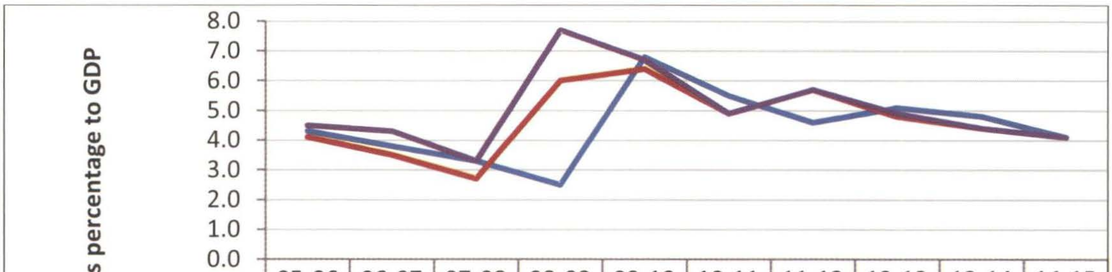
The FRBM Act as notified in August 2003 envisaged achieving fiscal deficit of not more than three *per cent* of GDP by March 2008. However, through

Finance Act 2004 (September 2004), the target was shifted to March 2009. To achieve this target, the fiscal deficit was to be reduced annually by an amount equivalent to 0.3 *per cent* or more of the GDP beginning with FY 2004-05. Further, the amended FRBM Rules notified in May 2013 stipulated that in order to achieve the target of fiscal deficit of not more than three *per cent* of GDP by 31 March 2017, the Central Government shall reduce such deficit by an amount equivalent to 0.5 *per cent* or more of the GDP at the end of each financial year, beginning with FY 2013–14. Subsequently, through Finance Act, 2015, the fiscal deficit target under the FRBM Act was extended to March 2018.

3.2.2 Trend of Fiscal Deficit

Graph-2 below presents the trend of fiscal deficit as a percentage of GDP over the period from 2005-06 to 2014-15:

Graph-2: Trend of Fiscal Deficit: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
BE/Target	4.3	3.8	3.3	2.5	6.8	5.5	4.6	5.1	4.8	4.1
Actuals(BAG)	4.1	3.5	2.7	6.0	6.4	4.9	5.7	4.8	4.4	4.1
Actuals(UGFA)	4.5	4.3	3.3	7.7	6.7	4.9	5.7	4.9	4.4	4.1

Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG) and Union Government Finance Accounts (UGFA). For calculation of Actuals (UGFA), GDP (old data series) upto 2013-14 has been adopted and for 2014-15, R_1 GDP figure (new series) released in February 2016 has been adopted.

Note: Data in absolute terms for deficits is at ***Annex 3.1****. The actual deficit figures as per Union Government Finance Accounts in some years differ from those shown in the Budget at a Glance because the Budget at a Glance figures are not being computed exactly as per the definition of fiscal deficit provided in the FRBM Act.*

Analysis of data in the above **Graph** reflects that up to the FY 2007-08, the trend of fiscal deficit was in line with fiscal consolidation path envisaged in the FRBM Act/Rules. However, from 2008-09 onwards, it started deviating from the path. The estimate for fiscal deficit for FY 2008-09 was 2.5 *per cent* of GDP, however, it ended up at 6.0 *per cent* of GDP. The estimate for 2009-10 was raised to the level of 6.8 *per cent* (5.5 *per cent* in the interim Budget), in view of bleak outlook for the growth in the world economy. From

2011-12, fiscal deficit has shown a declining trend and it has come down from 5.7 *per cent* in 2011-12 to 4.1 *per cent* in 2014-15.

3.2.3 Fiscal Deficit during 2014-15

For FY 2014-15, the Government had set fiscal deficit target at 4.1 *per cent* of GDP which showed 0.5 *per cent* reduction from the revised fiscal deficit target of 4.6 *per cent* for the year 2013-14. The calculation for computing fiscal deficit is as under:

Table-4: Fiscal Deficit-Budget Estimate and Actuals: 2014-15

Component	Actual Expenditure (1)	Non-debt Receipts (2)	Fiscal Deficit (FD) (1-2)	FD as % of GDP (As in Budget at a Glance/ MTFP)
		(₹ *in crore*)		
Budget Estimates	17,94,892	12,63,715	**5,31,177**	**4.1**
Actuals	16,63,673	11,52,947	**5,10,726**	**4.1**
Variation with reference to Budget Estimates	-1,31,219 (-7.31%)	-1,10,768 (-8.77%)	**-20,451 (-3.85%)**	**-**

Source: Budget at a Glance

Note: As per Union Government Finance Accounts, the fiscal deficit for FY 2014-15 works out at ₹5,15,948 crore (Excess of total disbursements from CFI excluding repayment of debt amounting to ₹19,09,144 crore over total receipts into the CFI excluding the debt receipts amount to ₹13,93,196 crore).

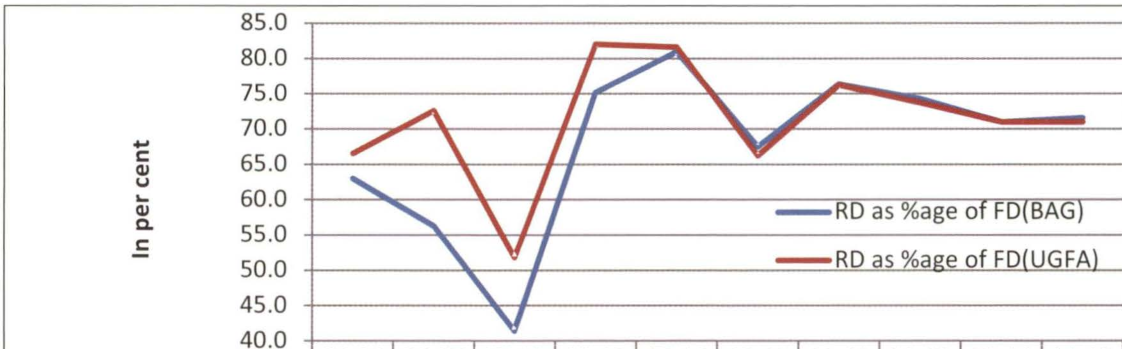
In 2014-15, fiscal deficit was contained at 4.1 *per cent* of GDP, i.e. at the budgeted level and the Government also achieved the annual reduction target of 0.5 *per cent* as discussed in para 2.2.

The figures of revenue and fiscal deficits reported in the Budget at a Glance of the Union Budget differ, in some years, from those indicated/derived from Annual Financial Statements/Union Government Finance Accounts of the respective years. On this issue, the CAG of India in October 2007 had drawn attention of the then Finance Minister. Apart from that, the matter was also reported in the CAG's Audit Reports on the accounts for FY 2004-05, 2005-06, 2007-08, 2008-09 and 2009-10 of the Union Government. The then Finance Minister while explaining the difference in revenue and fiscal deficits, in December 2007 had clarified that the procedure of depicting net expenditure in the Budget at a Glance (Gross expenditure as reported in AFS minus non-cash outgo item) had been followed over the years for budgeting and accounting of Government transactions. Subsequently, in Budget speech for FY 2008-09 the then Finance Minister acknowledged that significant liabilities of the Government on account of oil, food and fertiliser bonds were currently below the line, though the accounting arrangement was consistent with the past practice. He further acknowledged that the fiscal and revenue deficits were understated to that extent and there was need to bring these liabilities into the fiscal accounting. However, the practice of netting certain transactions for arriving at the figure of revenue and fiscal deficits in the Budget at a Glance is still in practice in the Union Budget. Any netting of an item of revenue or capital expenditure that affects the revenue or fiscal deficit is inconsistent with the definition of these deficits under the FRBM Act.

3.2.4 Revenue Deficit as a component of Fiscal Deficit

Fiscal deficit necessitates additional borrowings, having an impact on inter-generational fiscal management. Ideally, the borrowing should be undertaken for investment purposes only. This requires the Government not to use national savings to finance consumption. To quote 13th FC, "all items of consumption expenditure need to be financed from current receipts, a practice which is widely implemented in most countries that have successfully addressed the issue of fiscal responsibility. While some allowances may be made for revenue deficits during recessionary phases, the medium-term fiscal framework must plan for all current expenditures to be financed entirely out of current revenues". **Graph-3** depicts that the major portion of fiscal deficit was on account of imbalance in current expenditure resulting into revenue deficit averaging 67.8 *per cent* of fiscal deficit over the period from 2005-06 to 2014-15:

Graph-3: Trend of Revenue Deficit as component of Fiscal Deficit: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
RD as %age of FD(BAG)	63.0	56.3	41.4	75.2	81.0	67.5	76.4	74.3	71.0	71.6
RD as %age of FD(UGFA)	66.5	72.6	51.8	82.0	81.6	66.2	76.3	73.7	71.0	71.0

Source: RD as %age of FD(BAG) - Budget at a Glance; and RD as %age of FD(UGFA) - Union Government Finance Accounts.
*Note: Data in absolute terms for deficits is at **Annex 3.1**.*

The amended FRBM Act/Rules envisages fiscal deficit of not more than 3 *per cent* of GDP and revenue deficit not more than 2 *per cent* of GDP, i.e. revenue deficit should be two-thirds of fiscal deficit. **Graph-3** shows that during the post financial crisis period, the desired level (66 *per cent* or two-thirds of fiscal deficit) of revenue deficit was achieved only in FY 2010-11. However, from FY 2011-12 onwards, the position had deviated from the desired level.

3.2.5 Transactions affecting the computation of deficit indicators

During the course of audit of accounts for FY 2014-15 of the Union Government, it was noticed that certain transactions and financial eventualities, such as misclassification of expenditure, accruing of one time receipts, short transfer of levies/cess to the designated funds, non-recognition of losses in the operation of National Small Savings Fund (NSSF), short assignment of net proceeds to States, and unpaid expenditure on subsidies, had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder. These transactions are discussed in succeeding paras.

3.2.5.1 Understatement of Revenue Deficit due to misclassification of expenditure

During the audit of Union Government Accounts for FY 2014-15, a number of instances of misclassification of expenditure of revenue nature as capital expenditure and vice versa were noticed. These instances were reported in Para 4.6 of CAG's Report No.50 of 2015. As a result of obtaining budget provisions under incorrect head of accounts, and subsequent booking of expenditure there against resulting in misclassifications, the capital expenditure of the Union Government in FY 2014-15 was overstated by ₹ 748.43 crore and understated by ₹ 522.67 crore, leading to net overstatement of capital expenditure by ₹ 225.76 crore. Correspondingly, revenue deficit for FY 2014-15 was understated by an equivalent amount of ₹ 225.76 crore, as detailed in **Annex-3.2**.

The Ministry stated (May 2016) that misclassification of expenditure, if any is happening despite instructions issued to all Ministries/ Departments to exercise extreme caution while booking expenditure. It added that the matter may be taken up with the concerned Ministries / Departments by Audit.

The reply is in contravention to provision contained in Section 6(1) of FRBM Act which requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations. Being the administrative Ministry for implementation of provisions of the Act, merely issuing instructions to various Ministries to exercise due caution to avoid misclassification do not absolve the Ministry of Finance from the responsibilities mandated under the FRBM Act.

Recommendation: *Budgetary provisioning as well as their accountal need to be in harmony with the codal provisions relating to classification structure of accounts to avoid misclassification of expenditure.*

3.2.5.2 Contraction of Revenue Deficit due to one-time receipts in 2014-15

Levy on coal blocks: The Hon'ble Supreme Court had cancelled (September 2014) allocation of 204 captive coal blocks and imposed additional levy @ ₹ 295 per ton on coal extracted since commencement of production in those coal bocks till the date of its order (i.e. 24 September 2014) to be deposited in Government account by 31 December 2014 and for the period from 25 September 2014 to 31 March 2015 @ ₹ 295 per ton to be deposited by 30 June 2015. Against the total additional levy of ₹ 9,518 crore to be received[5] (for coal extracted up to 24 September 2014) by 31 December 2014, ₹ 6,150 crore were received by the Government till 31 March 2015.

[5] Source: Reply/information received from Ministry of Coal

Receipt from spectrum auction: During 2014-15, the Government had received ₹ 30,624 crore from 'Other Communication Services'. On scrutiny of the transactions, it was observed that out of ₹ 30,624 crore, receipts amounting to ₹ 10,791 crore were collected from spectrum auction which had usage rights of 20 years. Hence, ₹ 10,791 crore received by the Ministry was of the nature of one-time receipt against the auctioned rights for 20 years.

Thus, one-time receipts of ₹ 16,941 crore helped the Government in containing the revenue deficit, which would have been higher but for these receipts. The fact that certain one-time receipts budgeted in 2014-15 would not be available in 2015-16 and 2016-17 was also accepted by the Government in its MTFP Statement for FY 2014-15.

The Ministry stated (May 2016) that the observation was factual in nature and does not warrant any reply/action.

3.2.5.3 Short/non transfer of levies/cess to earmarked funds

Cesses are statutory levies whose proceeds are earmarked for utilisation for specific purposes. The revenue from cess is therefore not shared by Central Government with the States. In Para No. 2.3 of CAG's Report No. 50 of 2015 on the accounts for FY 2014-15 of the Union Government, non-transfer of ₹ 8,123 crore, collected under different categories of levies and cess forming part of tax/non-tax revenue, to the funds earmarked for the purpose have been reported. Details of such cess/levy collected and transferred to designated funds in the Public Account by the Government is at **Annex-3.3**. Such collections were meant to be utilised for specific purposes. However, the Government did not transfer the entire levy/cess collected to the designated funds. Further, there is no disclosure in the annual accounts or in the Budget documents with regard to the utilisation of cess collected for the intended purpose and unutilised balances. This led to corresponding decrease of revenue/fiscal deficit by ₹ 8,123 crore in 2014-15.

The Ministry stated (May 2016) that the audit observation has been made on some selected Funds. Ministry offered following comments in support of its stand:

(i) While it is true that the cesses/levies are levied for specific purposes, it is also the responsibility of the Government, as custodian of public

money, that the resources realized are productively spent and deployed for the purpose for which they were levied;

(ii) While rationally applying the resources, the capacity of the Ministry/Department or the progress of the scheme/programme is also required to be taken into account;

(iii) Funds parked in the reserve/corpus funds operated in the Public Account without being utilized create a liability to the Government on one hand, the scarce resources of the Government are held in the Public Account without productive application;

(iv) Keeping the money in the Public Account unutilized would deprive the sectors/schemes/programmes where resources are needed for effective implementation;

(v) Prudent financial management requires distribution of scarce resources among various competing needs of the Government depending on the requirement/progress of the Government schemes;

(vi) Transfer to the dedicated fund such as Prarambhik Shiksha Kosh is based on estimated collection of education cess, which is approved by Parliament through Appropriation Act. In case of excess collection over estimated collection, the difference in the estimated collection and actual collection cannot be transferred to the account without valid appropriation;

(vii) Universal access levy (UAL), which is transferred to Universal Service Obligation Fund (USOF), is not a cess and UAL forms part of non-tax receipt of the Government. USOF has a huge commitment towards implementation of National Optical Fibre Network and Government will finance the expenditure on NOFN as and when the scheme picks up;

(viii) It has been explained to the Public Accounts Committee by Ministry of Finance, vide this Ministry's letter dated 30.1.2016, that Government may credit such funds to USOF for being utilized exclusively for meeting Universal Service Obligation;

(ix) *In case of Cess on Tea, Cess on Films, there are no dedicated funds created in the Public Account for regulating the flow of funds. However, it is incorrect to state that Government has spent less on development of these sectors. Government is, in fact, spending sufficient funds commensurate with receipts in the form of cesses in these sectors; and*

(x) *It is therefore incorrect to state that Government did not transfer the cesses/levies to the designated funds in order to achieve the fiscal deficit as this observation would be narrow in perspective.*

Reply of the Ministry is not acceptable on following grounds:

(i) The levy/cess collected are for specific purpose usages and to provide the intended service in return of the cess/levy charged. Hence, the Government has a specific responsibility and liability as well for providing the service. Till the service is not rendered fully, the unspent collections need to be transparently reflected in the accounts of the Union Government.

(ii) In case of excess collection of cess than estimated in the Budget, the transfer of such collection to the designated funds through the Appropriation Act could also have been augmented through the available mechanism of proposing Supplementary Demands for Grants.

(iii) In respect of levy/cess for which comment has been made in the para above, there exists specific purpose Funds in the Public Account as detailed in **Annex-3.3**.

(iv) The UAL is a levy collected as a percentage of the revenue earned by the operators under various licenses, to be utilised by the Government for providing access to basic telegraph services in rural and remote areas. Thus, being a specific purpose levy accounted for under non-tax revenue has to be utilised for the purpose for which it was collected. For its transparent accountal, a separate USO Fund has been opened in the Public Account. However, the position of unspent amount of levy so far collected for this purpose has not been appearing in the USO Fund maintained in the Public Account.

Recommendation: *The Government may transfer specific purpose levies/cess collected to the funds earmarked for the purpose.*

3.2.5.4 Non recognition of losses under NSSF in CFI

National Small Savings Fund (NSSF) was created in Public Account in April 1999 with the Central Government taking up the responsibility of servicing the small savings deposits. The fund receives money from subscribers of various small saving schemes, and invests the balance available with it in Central and State Government Securities. Before the NSSF was constituted, the small savings receipts mobilised by the Union Government and on-lent to the States were treated as capital expenditure of the Union Government and, accordingly, calculated in its gross fiscal deficit. Shortfall in returns from loans given out of small savings proceeds and the interest paid on small savings were accounted for under CFI and hence calculated under its revenue deficit. After the constitution of the NSSF, however, the income/deficit of NSSF is not being reflected as part of the Union Government's revenue deficit. This is because NSSF operations are being accounted for in the Public Account, and around half of the outstanding balances under NSSF are accounted for as Public Account liabilities, instead of being accounted for as internal debt in the CFI. In this context, the 14th FC had observed that the off-budget nature of NSSF operations renders them outside the regulatory framework of the FRBM Act, raising concerns of fiscal transparency and comprehensiveness.

At the end of FY 2014-15, total accumulated deficit in the operation of NSSF was ₹ 90,707.56 crore. These deficits are in the nature of loss to the Government which will have to be borne on revenue account, whenever the liabilities under NSSF are fully and finally repaid. By keeping the annual loss in the operation of NSSF under Public Account, the deficit figure for the relevant year are not reflected fairly.

The Ministry stated (May 2016) that since inception of NSSF in Public Account, the reflection of deficit as a separate identity is being carried out as a policy matter approved by Ministry of Finance. It added that the accounting procedure of NSSF was got approved by the office of Controller General of Accounts with the office of the CAG. It further stated that outstanding liability *of the Central Government on account of NSSF is understated in the accounts due to netting of NSSF investments in Special State government securities/other securities and accumulated deficit. A footnote is inserted in Statement No. 2 of the Finance Accounts showing total outstanding liabilities, investments and deficits separately.*

The issue relating to surplus/deficit in the operation of NSSF was deliberated amongst the offices of the CAG, the CGA and the Budget Division of the Ministry of Finance in April 2000. During the deliberation, it was brought out by the office of the CGA that the deficit which had arisen in the first year of operation would get adjusted as and when there would be surplus. The operational loss, which was ₹ 1681.68 crore at the end of FY 1999-2000, has steadily increased year after year to ₹ 90,707.56 crore at the end of FY 2014-15 requiring urgent intervention. Under the present system, the subscribers of the National Small Savings Schemes on maturity of their investment are paid (principal/interest) out of the current/fresh subscriptions flowing to the schemes and operational loss of the year is absorbed in the scheme itself. Mere disclosure by way of footnote in the Finance Accounts is not sufficient to mitigate the concern.

Recommendation: *A mechanism for recognizing the result of annual operations of NSSF and its impact on the Government finances may be put in place.*

In reply to the audit recommendation, the Ministry accepted (June 2016) that administrative intervention is required for making good the accumulated losses which occurred in NSSF. It further added that if administrative decision is taken to make good the progressive deficit, this needs to be provided in CFI (with due appropriation authorised by Parliament) and this will have an adverse impact on revenue/fiscal deficit of the Government.

Reply of the Ministry underscores the audit contention that the losses in NSSF affect the computation of prescribed deficit indicators set out in the Act.

3.2.5.5 Net proceeds to States

In terms of Article 279 of the Constitution, the Comptroller and Auditor General of India is required to ascertain and certify the 'net proceeds' (any tax or duty the proceeds thereof reduced by the cost of collection), whose certificate shall be final.

During the certification of 'net proceeds' by the CAG, based on the recommendations of the successive Finance Commissions, it was noticed that during the period 1996-97 to 2014-15 an aggregated amount of ₹ 81,647.70 crore was short devolved to the States.

The Ministry stated (June 2016) that the accuracy of the figures intimated by CAG are required to be ascertained and need to be reconciled with that of Budget Division, Department of Economic Affairs as the calculations for State' share of Central Taxes and Duties are based on set practices and norms which have been meticulously followed year after year.

With regard to certification of net proceeds of taxes, it is pertinent to mention that in July 2000 Ministry requested for certification of net proceeds of taxes afresh with ante-dated effect viz. 1996-97 consequent upon passage of 80^{th} constitutional amendment. On receipt of request from the Ministry, clarifications were sought by the office of the CAG followed by reminders, which were not provided. Certificates on net proceeds were issued by the office of CAG on 10 February 2016.

Further, the draft certificate of CAG on net proceeds of taxes, together with detailed calculations were made available on 14 December 2015, 31 December 2015 and 6 January 2016 to the Secretary, Department of Economic Affairs for their observation, if any. As such opportunity was provided to the Ministry before issuing the final certificate in terms of Article 279 of the Constitution.

3.2.5.6 Unpaid expenditure on subsidy

In Para 1.3.2 of CAG's Report No. 50 of 2015 on the accounts for FY 2014-15 of the Union Government, a mention was made with regard to unpaid subsidy claims of five Central Public Sector Undertakings[6], amounting to ₹ 44,941 crore (claims including past years unpaid bills, but excluding last quarter bills for FY 2014-15 remaining unpaid) in respect of food, petroleum and fertilizer subsidies.

The Ministry stated (May 2016) that the Government as a going concern makes payment for the arrears of the past and defers payment to next financial year on account of various reasons such as non-finalization of accounts by

[6] National Fertilizers Ltd., Fertilizers and Chemicals Travancore Ltd., Madras Fertilizers Ltd., Hindustan Petroleum Corporation Ltd., Food Corporation of India Ltd.

PSUs. Ministry, for example, stated that arrears of food subsidy is made only after audit of accounts is complete or Oil Marketing Companies being paid for last quarter of a financial year after audit of financial results, in the first quarter of next financial year. Ministry also added that accounts of the Union and State Governments are prepared on the cash basis and under cash basis system, expenditure and deficit get impacted at the time/year of discharge of liabilities.

Though the accounts of the Government is prepared on cash basis, yet the deferment of liabilities to subsequent year cyclically has a bearing in computation of fiscal indicators. In the case of outstanding subsidy claims of Food Corporation of India, the Report No.50 of 2015 of CAG points that it has continuously increased during the last five years, which is a pointer towards that this practice may offset the responsibility of the Government to ensure inter-generational equity in fiscal management as laid down in the Act.

3.3 Effective Revenue Deficit

Section 2(aa) of amended FRBM Act (May 2012) defines 'effective revenue deficit' as the difference between the revenue deficit and grants for creation of capital assets. The concept of effective revenue deficit was introduced in Union Budget of 2011-12 to segregate the grants which were used to finance current expenditure and those used to create capital assets.

14^{th} FC in its Report commented that effective revenue deficit is not recognized in the standard Government accounting process. To quote the Commission, - the conventional rule, as understood, of financing current expenditure by current revenue was discarded and an artificial concept of effective revenue deficit was introduced in the statute in 2012. The Commission recommended that the Government should consider omitting the definition of effective revenue deficit from 1 April 2015. However, the FRBM Act continues to carry the targets for effective revenue deficit.

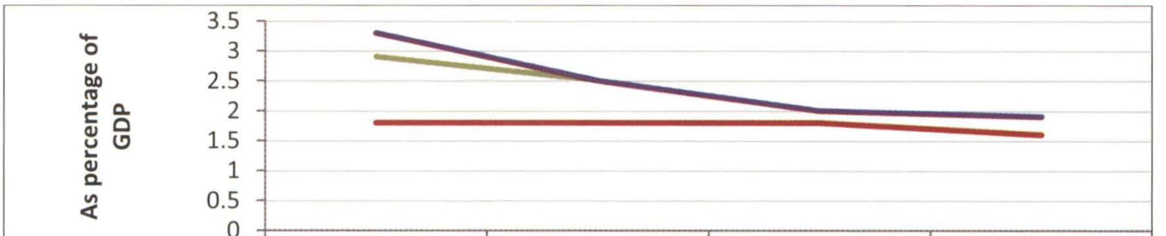
3.3.1 Effective Revenue Deficit target

The FRBM Rules notified in May 2013, stipulates that in order to achieve the target of elimination of effective revenue deficit by 31 March, 2015, the Central Government shall reduce such deficit by an amount equivalent to 0.8 *per cent* or more of the GDP at the end of each financial year, beginning with FY 2013–14. However, in the MTFP Statement placed along with the Union Budget 2013-14, the target was deferred to March 2016. By the Finance Act 2015, the target was further extended to March 2018.

3.3.2 Trend of Effective Revenue Deficit

The trend of effective revenue deficit as a percentage of GDP over the period from 2011-12 to 2014-15 is given in **Graph-4** below:

Graph-4: Trend of Effective Revenue Deficit: 2011-15



	2011-12	2012-13	2013-14	2014-15
BE/Target	1.8	1.8	1.8	1.6
Actuals(BAG)	2.9	2.5	2.0	1.9
Actuals(UGFA)	3.3	2.5	2.0	1.9

Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG) and Union Government Finance Accounts (UGFA). For calculation of Actuals (UGFA), GDP (old data series) upto 2013-14 has been adopted and for 2014-15, R_1 GDP figure (new series) released in February 2016 has been adopted.

Note: Data in absolute terms for deficits is at ***Annex 3.1****.*

During the last four years, ratio of effective revenue deficit to GDP had shown improvement and came down from 2.9 *per cent* in FY 2011-12 to 1.9 *per cent* in the FY 2014-15. However, despite the downward trend, the Government was not able to achieve its budgeted targets in any of the four financial years.

Elimination of effective revenue deficit implies that grants for creation of capital assets must equal the revenue deficit. In other words, the Government's revenue expenditure in excess of revenue receipts must be used for creation of capital assets. Achieving the target requires a correction in the composition of expenditure mix. In effect, this suggests structural change in design of schemes so that resources transferred from the Union Government is utilized for creation of capital assets, rather than funding operational costs. However, it was noticed that during FY 2011-12, expenditure on grants for creation of capital assets was 33.6 *per cent* of revenue deficit (as per Budget at a Glance) which were 31.8, 36.2 and 35.8 *per cent* during the next three financial years i.e. 2012-15 as detailed in **Annex-3.1**.

3.3.3 Effective Revenue Deficit during 2014-15

For the year 2014-15 (BE), the Government had set effective revenue deficit target of 1.6 *per cent* of GDP which showed 0.4 *per cent* reduction from the revised target of 2.0 *per cent* for the year 2013-14. However, in revised estimates for 2014-15, in February 2015, the target was raised to 1.8 *per cent* of GDP. **Table-5** below reflects that there was shortfall of more than 22 *per cent* in expenditure on grants for creation of capital assets, leading to around 12 *per cent* increase in effective revenue deficit over the budget estimates.

Table-5: Effective Revenue Deficit-Budget Estimate and Actuals: 2014-15

Component	Revenue Deficit (1)	Grant for creation of capital assets (2)	Effective Revenue Deficit (ERD) (1-2)	ERD as % of GDP
	(₹ in crore)			
Budget Estimates	3,78,348	1,68,104	**2,10,244**	**1.6**
Actuals	3,65,520	1,30,760	**2,34,760**	**1.9**
Variation with reference to BE	-12,828 (-3.39%)	-37,344 (-22.21%)	**24,516 (11.66%)**	**0.3**

Source: Budget at a Glance

Note: As per Union Government Finance Accounts, the effective revenue deficit works out at ₹2,35,468 crore (Difference between revenue deficit of ₹3,66,228 crore and expenditure on grants for creation of capital assets of ₹1,30,760 crore).

During FY 2014-15, the Government did not achieve the effective revenue deficit target of 1.6 *per cent* of GDP, which fell short by 0.3 *per cent* owing to reduction in expenditure on grants for creation of capital asset by 22.21 *per cent.* Further, the Government also could not achieve the mandated annual reduction target of 0.8 *per cent* in 2014-15, as the annual reduction was only 0.4 *per cent* with reference to revised target of 2.0 *per cent* of GDP for the year 2013-14 as discussed in para 2.2.

3.3.3.1 Inconsistency in expenditure on grants for creation of capital assets

In the Budget document, the figure of actual expenditure incurred on grants for creation of capital assets appear in Budget at a Glance. In Union Government Finance Accounts, prepared by the Controller General of Accounts under the Ministry of Finance, this figure appear in Appendix to Statement No. 9. On comparison, inconsistencies were noticed between the two sets of compilation in two financial years, as detailed in **Table-6** below:

Table- 6: Inconsistency in expenditure on grants for creation of capital assets

(₹ in crore)

Year	2011-12	2012-13	2013-14	2014-15
Actuals shown in Budget at a Glance*	1,32,582	1,15,710	1,29,418	1,30,760
Union Government Finance Accounts	1,01,231	1,15,710	1,29,838	1,30,760
Variation	31,351	-	420	-

*Figures of actuals for a particular FY are reflected in the Budget at a Glance of FY+2. For example, in respect of FY 2011-12, the actuals are reflected in the Budget at a Glance of FY 2013-14.

3.3.4 Incorrect estimation of Effective Revenue Deficit target

In order to estimate the effective revenue deficit target of the Government, every Ministry prepares information containing budget provision under the object head 'grants for creation of capital assets' under various schemes and programmes as contained in the Detailed Demands of Grants (DDG) of the respective Ministries and furnish the same to the Ministry of Finance. On the basis of this information, a statement containing the budget provision on the object head 'grants for creation of capital assets' is appended in the Expenditure Budget Volume-I.

As per this statement presented with the Budget for FY 2014-15, total budget provision on grants for creation of capital assets was ₹ 1,68,104.47 crore. Audit scrutiny of information contained in this statement in respect of some Ministries/Departments and its cross-verification with the concerned DDG revealed that the figures mismatched in the two sets of documents, viz. DDG and Statement appended with the Expenditure Budget Volume-I, with regard to budget provision under the head 'grants for creation of capital assets'. Some instances of mismatches on the basis of test-checked cases are detailed in **Table-7** below, which resulted in incorrect estimation of effective revenue deficit:

Table-7: Mismatch in the Budget Estimates on grants for creation of capital assets

(₹ in crore)

Sl. No.	Ministry/ Department	Budget Estimates in Expenditure Budget Vol-I	Budget Estimates in the DDG	Difference	Remarks
	1	2	3	4=3-2	5
1.	Law and Justice	Nil	847.90	847.90	Provision in DDG was not included in the Statement appended with Expenditure Budget, Vol.I.
2.	Health Research	Nil	98.00	98.00	
3.	Revenue	Nil	30.00	30.00	

4.	AIDS Control	74.00	0.00	(-)74.00	No provision was found in DDG but was included in Expenditure Budget, Vol.I.
5.	Posts	322.01	0.00	(-)322.01	Budget provision was under capital major head of expenditure but wrongly included in Expenditure Budget, Vol.I.
6.	Petroleum and Natural Gas	42.00	0.00	(-)42.00	Provision in DDG was under 'grants-in-aid general' but wrongly included in Expenditure Budget, Vol.I.
7.	Development of North Eastern Region	1,666.00	1,827.30	161.30	Different figures were included in the Expenditure Budget, Vol.I. than those furnished by the Ministries concerned.
8.	Health and Family Welfare	4,122.47	4,045.04	(-)77.43	
9.	School Education and Literacy	10,383.77	10,473.39	89.62	

Note: Figures in minus represent overstatement of effective revenue deficit.

As a result of deficiency in the mechanism of estimating provision in respect of grants for creation of capital assets, effective revenue deficit was underestimated by ₹ 1,226.82 crore and overestimated by ₹ 515.44 crore for FY 2014-15. The net impact of test checked cases was underestimation of effective revenue deficit by ₹ 711.38 crore.

The Ministry stated (May 2016) that Annex-6 of Expenditure Budget Vol.-I is prepared on the basis of information provided by Ministry and the reasons for variation may be taken up with concerned Ministries by Audit.

Reply of the Ministry is not tenable as the Ministry of Finance, being the focal point for administration of the FRBM Act, should ensure that the information being disclosed under the Act is complete and accurate.

In respect of observation made at Sl. No. 5 of Table-7, Department of Posts stated (March 2016) that the expenditure was earmarked for the scheme 'IT Induction & Modernization' under capital segment and the information was incorporated in the statement as per prevailing trend.

Reply of Department of Posts is not tenable as the budget provision for the earmarked expenditure were obtained under the object head 52 below capital major heads 5201 and 4552 and wrongly included in the disclosure statement as grants for creation of capital assets under the object head 35.

In respect of observation made at Sl. No. 7 of Table-7, Ministry of Development of North Eastern Region stated (April 2016) that due to allocation of additional amount of ₹ 200 crore by Planning Commission (in June 2014) there was variation with the disclosure statement prepared earlier at the time of interim Budget 2014-15.

Reply of the Ministry confirms that it had failed to update its position in disclosure statement in the regular Budget placed before Parliament in July 2014, resulting in variation in two sets of documents.

3.3.5 Incorrect classification of certain expenditure as grants for creation of capital assets

In 2014-15, a provision of ₹ 1,68,104.47 crore was made for grants for creation of capital assets in 41 Ministries as reflected in the Statement appended with Expenditure Budget, Volume-I. Audit test checked the budget provision on grants for creation of capital assets in some selected schemes/projects across 13 Ministries/Departments involving provision of ₹ 78,271.23[7] crore. Observations in this regard are discussed in succeeding paras.

3.3.5.1 Expenditure on procurement and maintenance treated as grants for creation of capital assets

Section 2(bb) of FRBM Act as amended in 2012 stipulates that 'grants for creation of capital assets' means the grants in aid given by the Central Government to the State Governments, constitutional authorities or bodies, autonomous bodies, local bodies and other scheme implementing agencies for creation of capital assets which are owned by the said entities. As per this definition, all expenditure classified as 'grants for creation of capital assets' by the respective Ministries to above entities would qualify as such under this definition of FRBM Act. The Government has not laid down

[7] Ministry of Development of North-Eastern Region - ₹ 948 crore, Ministry of Minority Affairs - ₹ 1,220.10 crore, Ministry of Panchayati Raj - ₹ 5,628 crore, Ministry of Rural Development - ₹ 49,365.02 crore, Ministry of Tribal Affairs - ₹ 1,054 crore, Department of Health and Family Welfare - ₹ 2,053.42 crore, Ministry of Information and Broadcasting - ₹ 543.65 crore, Ministry of Statistics and Programme Implementation - ₹ 3,950 crore, Ministry of Women and Child Development - ₹ 941.52 crore, Department of Agriculture Research and Education - ₹ 1,300.54 crore, Department of School Education and Literacy - ₹ 7,659.50 crore, Department of Higher Education - ₹ 3,504.50 crore, Department of Chemical and Petrochemicals - ₹ 102.98 crore

criteria/guidelines to decide which expenditure incurred by the grantee organisation will fall under the category 'capital creation'. In absence of any laid down criteria/guidelines, the following observations are made.

- In respect of flagship schemes, viz. Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) and Members of Parliament Local Area Development (MPLAD), expenditure to the extent of ₹ 32,463.40 crore and ₹ 3,350 crore respectively, transferred to State/district authorities, were treated as grants for creation of capital assets during FY 2014-15. It was noticed that some components of these schemes also included expenditure on certain activities which were either in the nature of maintenance of existing assets or procurement not resulting in creation of capital assets. Details of such components are mentioned in **Box-4** below:

Box-4: Works under the scheme not resulting in creation of capital assets

Scheme	Component of works
MNREGA	• Drought proofing, including afforestation and tree plantation • Plantation, horticulture, land development • Renovation of traditional water bodies, including de-silting of tanks • Maintenance of assets created under the Scheme
MPLAD	• Purchase of books for school, college and public library • Purchase of tricycles and wheelchair (manual/battery operated) • Purchase of artificial limbs for differently-abled persons • Expenditure on purchase of software and imparting of training for the purpose • Purchase of mobile library and furniture

Since, expenditure on above categories relates to maintenance of existing assets or procurement not resulting in creation of capital assets, their treatment as grants for creation of capital assets was not in order. In the absence of itemised expenditure incurred on above mentioned components of the two schemes, Audit could not quantify the amount of overstatement of expenditure on grants for creation of capital assets.

- Multi-Sectoral Development Programme (MsDP) is an area development initiative of the Ministry of Minority Affairs to address the development deficits of minority concentration areas by creating socio-economic infrastructure and providing basic amenities. During FY 2014-15, under MsDP ₹ 609.35 crore was allocated by the Ministry to the States as grants for creation of capital assets. Test check of these grants revealed that grant of ₹ 80.81 crore released by the Ministry included funds for 'skill development training programme' and 'purchase of bicycle, machine tools and equipment'. Since expenditure incurred on above components does not result in creation of capital assets, the classification would not be in order. This resulted in understatement of effective revenue deficit of the Government by ₹ 80.81 crore.

In respect of MNREGA and MPLAD observations, the Ministry stated (May 2016) that the components of work mentioned are either related to substantial up-gradation of assets or acquiring capital equipment, etc. and therefore qualify for booking under grants for creation of capital assets. The Ministry, further added that as the observations of audit relates to Ministry of Rural Development (in respect of MNREGA), Ministry of Statistics and Programme Implementation (in respect of MPLAD), and Ministry of Minority Affairs (in respect of MsDP), the same may be taken up with the concerned Ministry by the Audit.

The reply of the Ministry is contradictory to the practices followed across some Ministries[8], as scrutiny of sanction orders by Audit revealed that in these Ministries grants given for procurement of equipment, library books, organising training, etc. had been classified under the object head grants-in-aid general. Further, as the administration of FRBM Act, including preparation of Central Budget, monitoring of budgetary position, among other related business of the Government of India rests with the Ministry of Finance, the Ministry is required to appropriately follow up this issue with the concerned Ministries and address the audit concern.

Ministry of Statistics and Programme Implementation in respect of observation on components of works under MPLAD scheme stated (April 2016) that the scheme is essentially for development works and creation of durable community assets. It added that certain non-durable items (listed in Annexure-IIA of the scheme guideline and also pointed out by Audit) *have been permitted under the scheme with the approval of its Integrated Finance Division, keeping in view the locally felt needs. Further, item wise break up of expenditure under MPLAD scheme is centrally not maintained.*

[8] Ministry of Home Affairs, Ministry of Women and Child Development, Ministry of Tribal Affairs

Reply of the Ministry confirms that expenditure on certain non-durable items have been permitted under the scheme. Hence, inclusion of such expenditure under the scheme as grants for creation of capital assets was not in order.

Requirement for laying down criteria/guidelines:

On the issue of classification of expenditure as grants for creation of capital assets, it is pertinent to mention that the High Level Expert Committee on Efficient Management of Public Expenditure, headed by Dr. C. Rangarajan, in Para 5.38 of its Report had recommended (July 2011) setting up an expert group tasked to formulate the precise definition and criteria for classifying expenditure as "Government revenue expenditure for creation of tangible assets" to ensure a fairly rigid compliance to the requirements to prevent misclassification. Further, the requirement of maintaining assets records/registers and making them available in public domain was also emphasised. However, no such expert group has been set up by the Government.

Thus, due to absence of defined criteria for classification of expenditure as 'grants for creation of capital assets' there exists inconsistent and varying practices in the treatment of such expenditures.

Recommendation: *To facilitate correct identification and booking of expenditure as grants on creation of capital assets, the Government may consider defining the criteria for classification of expenditure as grants for creation of capital assets and its compliance by the Ministries/Departments.*

3.3.5.2 Incorrect classification of expenditure under IAY and RAY

Section 2(bb) of FRBM Act defines grants for creation of capital assets as grants given by the Central Government to the State Governments, constitutional authorities or bodies, autonomous bodies, local bodies and other scheme implementing agencies for creation of capital assets which are owned by the said entities. Indira Awas Yojana[9] (IAY), was a flagship scheme of the Ministry of Rural Development, providing assistance to Below Poverty Line (BPL) families, who are either houseless or having inadequate housing facilities for constructing a safe and durable shelter. During FY 2014-15, expenditure of ₹ 11,096.90 crore was incurred by the Ministry on the IAY

[9] IAY was subsumed in the Scheme Pradhan Mantri Awas Yojana from FY 2016-17.

scheme and categorised as grants for creation of capital assets. Under this scheme, the grants are released by the Ministry to various State Governments which in turn releases grants/assistance to the beneficiaries under the scheme.

We noticed that the funds under the scheme were utilised for providing housing facilities to BPL beneficiaries and the houses were owned by the beneficiaries and not by the grantee entities/organisations. Hence, categorising expenditure on IAY as grant for creation of capital assets was incorrect. This had resulted in understatement of effective revenue deficit by ₹ 11,096.90 crore.

Similarly, Rajiv Awas Yojana [10] (RAY) was a pioneering scheme of the Ministry of Housing & Urban Poverty Alleviation with the objectives of improving and provisioning of housing, basic civic infrastructure and social amenities in urban slums. During FY 2014-15, expenditure of ₹ 1,092.96 crore was incurred by the Ministry on the RAY and categorised as grants for creation of capital assets. Under this scheme, the grants are released by the Ministry to various State Governments which in turn releases grants to the beneficiaries under the scheme.

Since the expenditure under the scheme was utilised for providing housing in urban slums not owned by the grantee entities/organisations, categorising them as grants for creation of capital assets was incorrect. This, resulted in understatement of effective revenue deficit by ₹ 1,092.96 crore.

Ministry stated (May 2016) that these grants are for creation of assets for the beneficiaries and therefore appropriately classified. The Ministry further added that the matter regarding IAY and RAY pertains to Ministry of Rural Development and Ministry of Housing and Urban Poverty Alleviation respectively and Audit may take up this issue with the concerned Ministry / Department.

As per definition of grants for creation of capital assets, the assets being created out of grants would be owned by the grantee organisation. Since the beneficiaries under the schemes are not the scheme implementing entities/grantee organisation, the assets owned by them would not qualify to be classified as arising from grants for creation of capital assets.

[10] RAY was subsumed in the Mission 'Housing for All' in May 2015.

Recommendation: *The Government may exclude such grants, which does not lead to creation of assets owned by the grantee organisations, from categorising as grants for creation of capital assets.*

3.4 Liability of the Government

According to Section 2(f) of FRBM Act, total liabilities mean the liabilities under the CFI and the Public Account of India. Prudential debt management consistent with fiscal sustainability is one of the objectives of FRBM Act. The Government resorts to borrowing from internal and external sources, collectively known as Public Debt, to finance its deficit. The internal borrowings mainly comprise of market loans and special securities issued to the RBI. In addition to this, the resources available in the Public Account, in respect of which the Government functions as a trustee, are also liabilities which in turn are used to finance the deficit.

3.4.1 Liability target

Rule 3(4) of the FRBM Rules requires that the Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for FY 2004-05 and in each subsequent financial years the limit of 9 *per cent* shall be progressively reduced by at least one percentage point of GDP

Following **Table-8** shows achievement of target in respect of additional liabilities from 2004-05 to 2013-14.

Table-8: Additional Liability of the Government: 2004-14

(₹ in crore)

Financial year	Liability at the beginning of the year (1)	Liability at the end of the year (2)	Additional liability during the year (3= 2-1)	GDP (4)	Additional liability as %age of GDP (3/4)	FRBM target of additional liability as %age of GDP
2004-05	16,59,634	18,23,279	1,63,645	32,42,209	5.0	≤9
2005-06	18,23,279	19,68,799	1,45,520	36,93,369	3.9	≤8
2006-07	19,68,799	21,85,049	2,16,250	42,94,706	5.0	≤7
2007-08	21,85,049	24,76,357	2,91,308	49,87,090	5.8	≤6
2008-09	24,76,357	28,40,135	3,63,778	56,30,063	6.5	≤5
2009-10	28,40,135	31,60,924	3,20,789	64,77,827	5.0	≤4

Financial year	Liability at the beginning of the year (1)	Liability at the end of the year (2)	Additional liability during the year (3= 2-1)	GDP (4)	Additional liability as %age of GDP (3/4)	FRBM target of additional liability as %age of GDP
2010-11	31,60,924	35,32,450	3,71,526	77,84,115	4.8	≤3
2011-12	35,32,450	41,51,284	6,18,834	90,09,722	6.9	≤2
2012-13	41,51,284	47,06,586	5,55,302	1,01,13,281	5.5	≤1
2013-14	47,06,586	52,59,310	5,52,724	1,13,55,073	4.9	0

Source: Union Government Finance Accounts

As may be seen from **Table-8**, the Government did contain additional liabilities within the targets envisaged in the Act up to 2007-08. Thereafter, this target could not be achieved. Moreover, since no terminal year or terminal ceiling in terms of percentage is fixed for additional borrowing in the Act/Rules, after FY 2013-14 no additional borrowing would have been resorted to by the Government, though this scenario is not possible to visualise given the deficit budgeting of the Government. Thus, there appears to be inconsistency in the Act/Rules, which needs to be addressed, as pointed out in Para 2.5 of this Report.

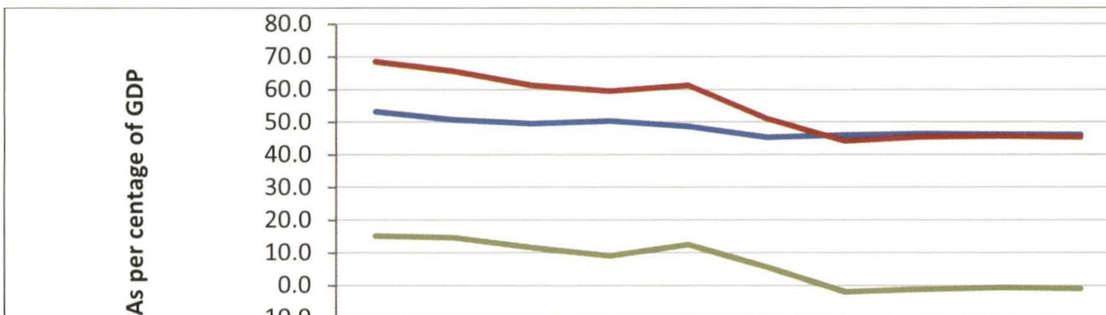
The Ministry stated (May 2016) that the slippage after 2007-08 was due to increase in fiscal deficit / borrowings of Government after global financial crisis. It added that the position has been explained in the FRBM statements of the respective years and the Government is committed to the path of fiscal consolidation as mandated under the FRBM Act. It further added that outstanding liabilities of the Government as a percentage of GDP are showing declining trend.

The explanation for deviation relating to assumption of additional liabilities is appreciable. However, post FRBM period, the trends as reflected in the **Table-8** above do not show much improvement in the containment of creation of additional liabilities as percentage of GDP, besides having inconsistency in the Act / Rules which needs to be addressed clearly as the additional liabilities cannot be completely eliminated.

3.4.2 Trend of Outstanding liability

Following **Graph-5** shows the trend of outstanding liability of the Government as a percentage of GDP as compared to estimates included in MTFP Statement over the period from 2005-06 to 2014-15:

Graph-5: Trend of Outstanding Liability: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Outstanding Liability	53.3	50.9	49.7	50.4	48.8	45.4	46.1	46.5	46.3	46.2
BE (MTFP)	68.6	65.7	61.4	59.6	61.4	51.1	44.2	45.5	45.7	45.4
Variation with BE (%)	15.3	14.8	11.7	9.2	12.6	5.7	-1.9	-1.0	-0.6	-0.8

Source: Union Government Finance Accounts and GDP (old data series) up to 2013-14. For 2014-15, R_1 GDP figure (new series) released in February 2016. The actual outstanding liability and budgeted outstanding liability in 2004-05 was 68.5 per cent and 56.2 per cent of GDP respectively.

As seen from **Graph-5**, the outstanding liability-GDP ratio had shown a declining trend and it dropped to 46.2 *per cent* in March 2015 from 53.3 *per cent* in March 2006. However, from FY 2011-12 onward the outstanding liability in terms of GDP outstripped the budgeted level as contained in the MTFP Statement.

3.4.3 Understatement of Public Account liability

In Para 1.5.1 of CAG's Report No. 50 of 2015 on the accounts for FY 2014-15 of the Union Government, a comment relating to understatement of Public Account liability has been included. The understatement of liability by ₹ 6,70,210 crore was on account of non-inclusion of investments out of NSSF collections in State Government Securities and India Infrastructure Finance Company Limited (IIFCL); investment of Post Office Insurance Fund with private fund managers; and accumulated deficit (loss) in the operation of NSSF. After adjusting these investments and loss, the net Public Account Liability was shown in Union Finance Accounts as ₹ 6,71,010 crore, as against the actual outstanding liabilities of ₹ 13,41,220 crore[11] in Public Account. Taking into account the actual liability in the Public Account, the total liability of the Union Government would be 51.6 *per cent* of GDP as against 46.2 *per cent* in 2014-15, as brought out in **Graph-5**.

The Ministry stated (May 2016) that depiction of Public Account liability in the present form is approved on the advice of office of the Comptroller and Auditor General of India and the understatement of Public Account as pointed out by Audit is due to difference in perception. The Ministry however brought out that in the Union Government Finance Accounts, the Public Account liability is shown net of investments made out of NSSF, accumulated deficit in NSSF, etc. and accordingly explained.

The reply of the Ministry is not in order. Office of the CAG approved the accounting procedure relating to creation of NSSF. Netting of liabilities mentioned in the observation is the decision of the Ministry. Thus, understatement of Public Account liabilities and its qualification by way of explanation through footnotes in the Union Government Finance Accounts does not reflect the true and fair liability position. The amount invested in IIFCL, investment of Post Office Insurance Fund with the private fund managers and accumulated loss in the operation of NSSF impacts the Union Government liabilities in the Public Account and the total liability as a percentage of GDP gets distorted as a result of the exclusions.

3.5 Guarantees

Central Government extends guarantees primarily for the purpose of improving viability of projects or activities undertaken by the Government entities with significant social and economic benefits, to lower the cost of borrowings as well as to fulfil the requirement in cases where sovereign guarantee is a precondition for bilateral/multilateral assistance. While guarantees do not form part of debt as conventionally measured, in the

[11] Comprising ₹11,52,363 crore on account of Small Savings, Provident Funds, etc. and ₹1,88,857 crore as reserve funds and deposits. The outstanding liability of ₹11,52,363 crore on account of Small Savings, Provident Funds etc. has been brought down on account of investment by ₹5,43,499 crore in Special State Government Securities; ₹1,500 crore in India Infrastructure Finance Company Limited; ₹34,504 crore pertaining to Post Office Insurance Fund with private fund managers; besides adjusting ₹90,708 crore of accumulated deficit in the operation of NSSF.

eventuality of default, they have the potential of aggravating the debt position of the Government.

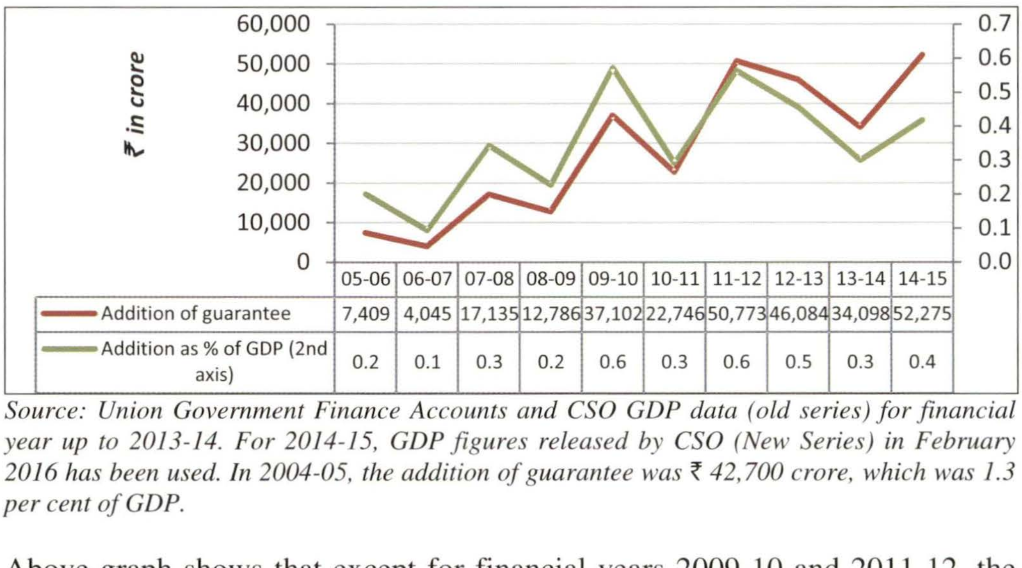
3.5.1 Guarantees target

FRBM Act and the Rules made thereunder stipulate that the Central Government shall not give guarantees aggregating to an amount exceeding 0.5 *per cent* of GDP in any financial year beginning with 2004-05.

3.5.2 Trend of additions in Guarantees

In Statement No.4 of Union Finance Accounts, details relating to guarantees given by Union Government are furnished. Following **Graph-6** shows the trend of additions in guarantees of the Government as a percentage of GDP over the period from 2005-06 to 2014-15:

Graph 6: Trends of additions in guarantees: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Addition of guarantee	7,409	4,045	17,135	12,786	37,102	22,746	50,773	46,084	34,098	52,275
Addition as % of GDP (2nd axis)	0.2	0.1	0.3	0.2	0.6	0.3	0.6	0.5	0.3	0.4

Source: Union Government Finance Accounts and CSO GDP data (old series) for financial year up to 2013-14. For 2014-15, GDP figures released by CSO (New Series) in February 2016 has been used. In 2004-05, the addition of guarantee was ₹ 42,700 crore, which was 1.3 per cent of GDP.

Above graph shows that except for financial years 2009-10 and 2011-12, the addition of guarantee (as reflected in Union Government Finance Accounts of relevant years) remained within the target of 0.5 *per cent of GDP*.

Ministry stated (May 2016) that the ceiling of 0.5 per cent of GDP for any FY has been calculated at the beginning of the said year in order to provide guarantees. It added that the Government had ensured that Guarantees given during the year 2009-10 and 2011-12 were well within 0.5 per cent of GDP, i.e. budget/revised estimates of the respective financial years. However, subsequent revision of GDP of these two years in February 2016 by CSO was not anticipated at the time of finalization of said guarantees.

The reply of the Ministry is not in order. Only for FY 2014-15 the new series GDP released by CSO on 8 February 2016 has been adopted by Audit and the addition in guarantee was within the prescribed limit. In respect of earlier years, Audit has adopted the old series of GDP for measuring and analysing the trend of the relevant years. The ceiling breached in the two years referred to above was with reference to old series of GDP.

3.6 Borrowings from Reserve Bank of India

As per Section 5 of FRBM Act, the Central Government shall not borrow from the Reserve Bank except by way of advances to meet temporary excess of cash disbursement over cash receipts during any financial year in accordance with the agreements which may be entered into by the Government with the Reserve Bank of India (RBI). The Act, however, provides that the RBI may buy and sell the Central Government securities in the secondary market.

We observed that during the period under review Central Government did not borrow from RBI.

Conclusion

During the year 2014-15, the Government was able to achieve its budgeted revenue and fiscal deficit targets of 2.9 and 4.1 *per cent* respectively. However, the Government was unable to achieve the budgeted target of effective revenue deficit, which slipped to 1.9 *per cent* from budgeted level of 1.6 *per cent*.

In FY 2014-15 certain transactions, such as misclassification of expenditure, accruing of one time receipts, short transfer of levies/cess to the designated funds, non-recognition of losses in the operation of National Small Savings Fund (NSSF), short assignment of net proceeds to States, and unpaid expenditure on subsidies, had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder. Likewise, the liabilities of the Union Government had also been understated due to non-inclusion of investments made out of NSSF collections in State Government Securities and India Infrastructure Finance Company Limited; investment of Post Office Insurance Fund with private fund managers; and accumulated deficit (loss) in the operation of NSSF.

Financial indicators are the benchmark to review the compliance of fiscal consolidation process as envisaged under various provisions of the FRBM Act. Computation of financial indicators by not factoring in above transactions had a bearing on the accuracy, completeness, and transparency in the financial performance of the Government.

Chapter 4: Analysis of projections in fiscal policy statements

Section 3 of the FRBM Act envisages laying of three fiscal policy statements (viz. Mid-term Fiscal Policy (MTFP); Fiscal Policy Strategy (FPS); and Macro-economic Framework (MF)) in both Houses of Parliament along with the Annual Financial Statement and the Demands for Grants. Amendment made in the FRBM Act in 2012 prescribed another statement (Medium Term Expenditure Framework (MTEF) Statement) containing a three year rolling target for prescribed expenditure indicators, with specification of underlying assumptions and risks involved. The MTEF is mandated to be laid before both Houses of Parliament immediately following the Session of Parliament in which the MTFP; FPS and MF Statements are laid.

Efficient management of tax administration/other receipts and public expenditure holds the balance for achievement of various fiscal indicators envisaged under the FRBM Act/Rules. This chapter analyses the receipts and expenditure of the Union Government for FY 2014-15 vis-a-vis projections contained in the fiscal policy statements and the Budget at a Glance and Annual Financial Statement.

4.1 Projections in Mid Term Fiscal Policy Statement

MTFP Statement contains three year rolling targets for fiscal indicators viz. revenue deficit, effective revenue deficit, fiscal deficit, Tax Revenue and Total Outstanding Liabilities as a percentage of GDP with specification of underlying assumptions, including assessment of sustainability relating to balance between revenue receipt and revenue expenditure; use of capital receipts including market borrowings for generating productive assets. Analysis of projections of some of the components of fiscal indicators for FY 2014-15 in MTFP Statement are discussed below:

4.1.1 Gross Tax Revenue projection

In the MTFP Statement placed along with Budget 2012-13, the Government had set gross tax revenue target of 11.7 *per cent* of GDP for FY 2014-15. This target was revised to 11.2 and 10.6 *per cent* of GDP in subsequent MTFP Statements placed with Budget 2013-14 and 2014-15 respectively. The target was again revised downward to 9.9 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2015-16.

In Budget 2014-15, several proposals were made to recalibrate the tax effort on Indirect Taxes so that fiscal consolidation may be achieved. However, in its Mid-Year Economic Analysis Report (December 2014), while explaining deviation in meeting the obligations under the FRBM Act, the Government stated that its revenue projections for FY 2014-15 were over-optimistic. In the said Analysis Report it was brought out that there was overestimation of gross tax revenue amounting to ₹ 1,05,084 crore. The Report also stated that an overestimation of revenue can result from an overestimation of nominal GDP growth as well as overestimation of buoyancy.

The Ministry stated (May 2016) that audit observation is factual in nature. It added that the rolling targets in respect of prescribed fiscal indicators including tax-GDP ratio is based on underlying assumptions, and variation in these macro-economic parameters necessitates re-adjustment in prescribed fiscal indicators of the Budget year.

The reply is not tenable as the MTFP Statement containing rolling targets with specifications of underlying assumptions for fiscal indicators should be on a sound basis, which may form the base for preparing the Budget for the relevant year.

4.1.2 Total Outstanding Liability projection

Rule 5 of FRBM Rules 2004 requires that the Central Government shall set forth a three-year rolling target through MTFP Statement in respect of total outstanding liabilities as a percentage of GDP.

In Budget 2012-13, the Government had set the target as 41.9 *per cent* of GDP for FY 2014-15. It was noticed that the projections were revised upwardly for the year 2014-15, to 44.3 *per cent* and 45.4 *per cent* of GDP in next two MTFP Statements placed along with Budgets for the financial years 2013-14 and 2014-15 respectively. Against this, the actual ratio of total liability to GDP for 2014-15 stood at 46.2 *per cent* (Refer Para No.3.4.2 of this Report).

The Ministry stated (May 2016) that while preparing Budget for particular financial year, the Government provides the rolling targets of specified fiscal indicators on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure etc. and variation in these macro-economic parameters necessitates re-fixing of fiscal targets in the Budget year.

The reply is not tenable as the Act/Rules envisaged that the targets of fiscal indicators contained in MTFP Statement should be based on underlying assumptions which could be the base for preparing the Budget for the relevant year. Changing projection of fiscal indicators for a relevant year frequently shows that the underlying assumptions were not on sound basis.

4.1.3 Disinvestment projection

In the MTFP Statement placed with Budget 2013-14, an amount of ₹ 20,000 crore was projected as disinvestment proceeds for FY 2014-15. Further, in MTFP Statement placed along with the Budget of 2014-15, the Government expected to raise ₹ 63,425 crore as total miscellaneous capital receipts. But in RE 2014-15, this projection was scaled down to ₹ 31,350 crore. Against this reduced projection, the actual realization from disinvestment of Public Sector Undertakings in FY 2014-15 was ₹ 37,737 crore, far off from the budgeted projection of ₹ 63,425 crore.

The Ministry stated (May 2016) that the audit observation is factual. It added that with uncertain market conditions prevalent for most part of the year, there was high probability of getting less than optimum returns on disinvestment and the Government decided to take more cautious approach to go slow on disinvestment.

The reply of the Ministry reinforces the audit contention that the projection for various components of fiscal indicators contained in the fiscal policy statements are not based on sound assumptions.

4.1.4 Structural imbalance in the composition of expenditure

MTFP statement measures deployment of capital receipts for generating productive assets through the ratio of Plan Expenditure as a percentage of fiscal deficit and Non-Plan expenditure as a percentage of revenue receipts.

The projections for the year 2014-15 in the MTFP Statements for 2012-13 and 2014-15 vis-à-vis actuals are as under:

Table-9: Structural composition of expenditure

(in percentage)

Parameters	**Assumptions made for FY 2014-15 in MTFP Statement placed along with**		**Actual for FY 2014-15 (worked out from Budget at a Glance for 2016-17)**
	Budget for 2012-13	**Budget for 2014-15**	
Plan Expenditure/Fiscal Deficit	131	108.3	90.6
Non-Plan Expenditure/total revenue receipt	88	102.5	109.0

Note: Issue not discussed in MTFP Statement for FY 2013-14.

To assess the quality of government spending, an increasing ratio of plan expenditure to fiscal deficit is a pointer towards the efficient deployment of borrowed resources. On the other hand, non-plan expenditure in excess of revenue receipts indicate use of capital resources for consumptive expenditure, thereby raising issues of structural problem in the composition of expenditure, requiring corrective measures towards development works. However, from **Table-9** above, it would be observed that the projections made in the MTPF Statements to address the issue of structural problems in the composition of expenditure could not be achieved, as plan expenditure to fiscal deficit ratio slipped to 90.6 *per cent* from budgeted level of 108.3 *per cent* and non-plan expenditure to total revenue receipt ratio increased to 109 *per cent* from 102.5 *per cent* for FY 2014-15.

Ministry stated (June 2016) that the projections in the MTFP statement are set on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure etc. over the projection period and variation in these macro-economic parameters at the time of actual budgeting necessitates re-fixing of fiscal targets in the Budget year. It also added that there has been improvement in deployment of capital receipts for generating productive assets. Between 2012-13 and 2016-17, capital expenditure as percentage of fiscal deficit has increased from 34 per cent to about 46 per cent.

The increasing proportion of capital expenditure as percentage of fiscal deficit is appreciable. However, the fact remains that projections for components of fiscal indicators including receipts, expenditure and liabilities, as contained in fiscal policy statements are not based on sound assumptions leading to frequent and substantial recalibration in later years and also having impact on structural imbalance in composition of expenditure.

4.2 Projections in Medium Term Expenditure Framework Statement

Consequent to amendments made in FRBM Act in 2012, one of the key requirements relate to laying of a Medium Term Expenditure Framework (MTEF) Statement in the Parliament, in the Session immediately following the Budget Session. In terms of sub-section 6A of Section 3 of the Act, the MTEF Statement shall set forth a three year rolling target for prescribed expenditure indicators (in prescribed format notified on 5 September 2012) with specification of underlying assumptions and risks involved.

Comparison of projection of expenditure for FY 2014-15 contained in MTEF Statement of 2013-14 (August 2013) with Budget estimates for FY 2014-15 contained in MTEF Statement of 2014-15 (December 2014) and revised estimates for FY 2014-15 as contained in MTEF Statement of 2015-16 (August 2015) is given in **Annex-4.1**.

From the annexure, it would be seen that underlying assumptions based on which the expenditure projections made for FY 2014-15 in MTEF Statement of 2013-14 were changed in subsequent years. As a result of persistent changes in projections, following points were observed.

- In respect of revenue expenditure and capital expenditure, the projection made in August 2013, as compared to RE 2014-15 (August 2015), were overestimated by 3.93 and 16.89 *per cent* respectively.

- The projection made in respect of grants for creation of capital assets was reduced from ₹ 2,33,345 crore (August 2013) to ₹ 1,68,104 crore (December 2014) and to ₹ 1,31,898 crore (August 2015). The ultimate contraction under this head of expenditure was ₹ 1,01,447 crore, amounting to 43.48 *per cent* of the projected figure.

- Projections of revenue expenditure on Subsidy, Defence, Finance, and Urban Development were augmented substantially in RE 2014-15. While in rest of the heads of expenditure there were over projections, which were curtailed in RE 2014-15.

- With respect to Capital Expenditure in Home Affairs, Finance, Health, Commerce and Industry, Planning and Statistics, IT & Telecom and Scientific Departments the over projections were more than 40 *per cent* in MTEF Statement of August 2013.

- Some of the heads of expenditure have also been compared vis-à-vis actuals as detailed in **Annex-4.2**. The actual revenue expenditure under the heads Pension and Defence for FY 2014-15 outstripped the projection for that year as contained in MTEP Statement of 2013-14 by 20.3 and 9.3 *per cent* respectively. At the same time, actual capital expenditure fell short by 15.0 *per cent* as compared to projections. Comparison of projections with actuals in Annual Financial Statement and Union Government Finance Accounts is also given in **Annex-4.2**

Ministry stated (June 2016) that the projections in the MTFP statement are set on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure etc. over the projection period and variation in these macro-economic parameters at the time of actual budgeting necessitates re-fixing of fiscal targets in the Budget year.

The reply of the Ministry needs to be seen along with the comments contained in Paras 4.1 and 4.2 which bring out that there were wide variations in the projected receipts and expenditure figure for a particular financial year included in the various fiscal policy statements vis-a-vis budget estimates prepared for that financial year. This indicates deficiencies in the process of making assumptions while preparing these fiscal policy statements.

Recommendation: *The Government may strengthen the process of making underlying assumptions for projection of receipt and expenditure in various fiscal policy statements to insulate them from frequent changes and to seamlessly integrate the projections in the Budget.*

Conclusion

The analysis of the projections of receipts and expenditure included in the fiscal policy statements for multi-year revealed that the projections were at variance vis-a-vis corresponding figures for that year as reflected in subsequent statements and Budget documents.

Chapter 5: Disclosure and Transparency in fiscal operations

FRBM Act requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations and make such disclosures in the prescribed forms. This chapter analyses general transparency in government accounts together with authenticity/transparency of data contained in disclosure forms/statements mandated under the Act.

5.1 Transparency in Government Accounts

Section 6(1) of FRBM Act provides that the Central Government shall ensure greater transparency in its fiscal operations in the public interest and minimise as far as practicable, secrecy in the preparation of the Annual Financial Statement and the Demands for Grants. Observations relating to issues of transparency are discussed in succeeding paras.

5.1.1 Non-inclusion of statements in Union Accounts

12th FC, in its Report submitted to the Government in November 2004, had recommended inclusion of eight additional statements/information in the Union Government accounts for greater transparency and informed decision making, pending transition from cash to accrual basis of accounting. The recommendation was accepted in principle by the Government. The additional statements recommended by the Commission were in respect of the following:

(i) Subsidies given, both explicit and implicit; (ii) Expenditure on salaries by various departments/units; (iii) Detailed information on pensioners and expenditure on Government pensions; (iv) Committed liabilities in the future; (v) Debt and other liabilities as well as repayment schedule; (vi) Accretion to or erosion in financial assets held by the Government including those arising out of changes in the manner of spending by it; (vii) Implications of major policy decisions taken by the Government during the year or new schemes proposed in the Budget for future cash flows; and (viii) Maintenance expenditure with segregation of salary and non-salary portions.

This recommendation of the Commission was endorsed by 13th and 14th Finance Commissions also. However, the Government has not taken steps to include these statements in the accounts of the Union Government even after a lapse of eleven years, despite in-principle acceptance of the recommendation.

The Ministry stated (May 2016) that the Government is making all disclosure statement as notified under the FRBM Rules. It added that the FRBM Act does not require Government to make disclosure statements as recommended by the Finance Commission and other Committees.

While taking into consideration the reply of the Ministry, it may be mentioned that Section 6(1) of the FRBM Act requires the Central Government to take suitable measures to ensure greater transparency in its fiscal operations. As such the inclusion of above eight additional statements in the accounts of the Union Government would further enhance the transparency.

Recommendation: *Necessary steps may be taken to append additional statements in the Union Government Finance Accounts as suggested by the 12th FC to ensure greater transparency in the accounts.*

5.1.2 Lack of transparency in Direct tax receipt figure

In the Annual Financial Statement and Union Government Finance Accounts, the estimates and actual collection from Tax Revenue are netted after taking into account the amount of refunds (including interest on refunds). Analysis of direct tax receipt of the Union Government, revealed that substantial portion of tax collected goes out as refunds every year, as detailed in the **Table-10** below:

Table-10: Collection of Direct Tax and Refunds

(₹ in crore)

Financial Year	Gross Direct Tax Collection* (1)	Refunds # (2)	Total Direct Tax collection (3=1+2)	Percentage of refunds to direct tax collection (4=2/3)
2010-11	4,45,995	85,668	5,31,663	16.11
2011-12	4,93,987	1,00,300	5,94,287	16.88
2012-13	5,58,989	90,432	6,49,421	13.93
2013-14	6,38,596	95,658	7,34,254	13.03
2014-15	6,95,792	1,17,495	8,13,287	14.45

* Source: Union Government Finance accounts.

Source: CAG's Report No. 3 of 2016 (Direct Taxes). Refunds also include interest on refunds of taxes.

During last five years period 2010-15, the refunds ranged from 13.03 to 16.88 *per cent* of the total direct tax collection. Though the amount of refunds was substantial, no information about the quantum of refunds was available either in the Annual Financial Statement or in the Finance Accounts. As such, the accounts of the Government were not transparent in respect of information on Tax Revenue.

The Ministry while furnishing the data of refunds, which ranged between 12 to 17 per cent of the gross direct tax collection, stated (May 2016) that in Finance Accounts revenue receipt are categorized as Tax Revenue and Non-tax Revenue, and figures for Direct Taxes are not shown separately. It added that Finance Accounts is prepared at minor head level showing the tax figures net of refunds.

Reply of the Ministry is not tenable as refunds and interest on refunds under respective tax receipt heads (viz. direct tax and indirect tax) form a significant proportion of gross Tax Revenue and hence needs to be depicted in the Union Government Finance Accounts through appropriate disclosures to improve transparency in accounts.

5.2 Transparency in disclosure statements mandated under FRBM Act

In compliance to Section 6 of FRBM Act, along with Budget, disclosure statements viz. arrear of tax and non-tax receipts, position of outstanding guarantees, liabilities and assets of the Government etc. are placed before the Parliament. Examination of these statements revealed inadequacy in disclosures, as discussed below.

5.2.1 Understatement of arrears of Non-Tax Revenue

Rule 6 of the FRBM Rules requires laying of a statement providing details of non-tax revenue in arrear in **Form D-2**. Receipt Budget 2016-17 (Annex-12) provided details of arrears of non-tax revenue as at the end of reporting year 2014-15. As per disclosure, at the end of FY 2014-15, the arrears of non-tax revenue was ₹ 1,07,961.47 crore, which also includes ₹ 35,141.05 crore as arrears of interest receipts from State/Union territory Government, Department Commercial Undertakings and Public Sector Undertakings.

It was noticed that, as per Union Government Finance Accounts for FY 2014-15, the amount of arrears of interest receipts from State/Union Territory Governments and other loanee entities was ₹ 48,523.28 crore. Thus, information relating to interest receipt disclosed under the FRBM Act for the same period was not correct and was understated by ₹ 13,382.23 crore.

5.2.2 Non-inclusion of outstanding coal levy in arrears of Non-Tax Revenue

It was noticed that out of additional levy of ₹ 9,518 crore (for coal extracted up to 24 September 2014) on cancelled coal block to be deposited by 31 December 2014 (as discussed in Para 3.2.5.2), only ₹ 6,150 crore was received till 31 March 2015. An amount of ₹ 3,368 crore was outstanding as receivable during the financial year 2014-15. However, this receivable amount was not reflected in the **Form D-2** (Receipt Budget 2016-17, Annex-12) as arrears of non-tax revenue. Thus, the disclosure made by the Government was inadequate.

Ministry of Coal stated (May 2016) that the amount of coal levy was to be calculated based on the actual amount of coal extracted till 31 March 2015 and this information would have been possible only after March 2015. Thus, it could technically become arrear only during 2015-16.

The reply of the Ministry is factually incorrect as they are referring for the dues for the period 25 September 2014 to 31 March 2015, which has not been raised in the above para.The balance amount of ₹ 3,368 crore was receivable for the year 2014-15, as it was to be deposited by 31 December 2014. Further, Form D-2 for reporting year 2014-15 was made available in the Budget of 2016-17 and there was sufficient time available with the Ministry to furnish updated and accurate information relating to the reporting year 2014-15.

5.2.3 Understatement of assets

Rule 6 of the FRBM Rules requires laying of a statement of physical and financial assets of the Government in **Form D-4**. Receipt Budget 2016-17 (Annex-5(iv)) provides details of assets of the Union Government as at the end of reporting year 2014-15. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2014-15 was ₹ 9,71,354.25 crore. Following observations relating to inconsistency in the disclosure pertaining to asset register have been made.

5.2.3.1 Variation in figures of closing and opening balances of assets

On examination of **Form D-4**, variations were noticed in the closing and opening balances of assets, as depicted below in the **Table-11**.

Table-11: Variations in closing and opening balances

(₹ in crore)

Position of total assets at the end of financial year		Position of total assets at beginning of next financial year		Variation in closing and opening figures
2012-13	9,77, 672.48	2013-14	9,70,914.56	6,757.92
2013-14	10,31,139.36	2014-15	9,18,374.52	1,12,764.84
2014-15	9,71,354.25			

Source: Receipt Budget (Annex-5(iv) of 2014-15, 2015-16 and 2016-17.

Clarification for variation in the closing and opening figures in respect of assets for financial years 2012-13 and 2013-14 was not given in the **Form D-4** of relevant years, which indicated absence of transparency in disclosure.

5.2.3.2 Inconsistency in figures of loans to Foreign Governments

Examination of **Form D-4** disclosure revealed that a sum of ₹ 9,773.73 crore was shown as loans outstanding from foreign governments at the end of 2014-15. Similar information contained in the Union Government Finance Account revealed that a sum of ₹ 9,210.62 crore was outstanding as loans from foreign governments at the end of 2014-15. Thus, there was overstatement of ₹ 563.11 crore of loans outstanding from foreign governments in **Form D-4** disclosure.

5.2.4 Inconsistency in disclosure of grants for creation of capital assets

Rule 6 of the amended FRBM Rules requires laying of a statement providing the Ministry-wise breakup of grants for creation of capital assets in **Form D-6**. The disclosure requires providing details of budget and revised provisions for the current financial year and BE for ensuing financial year. During examination of information contained in **Form D-6** disclosed by the Government following inconsistencies were noticed:

5.2.4.1 Incorrect disclosure in Form D-6

The information contained in Form D-6 for BE 2014-15, which also contained information relating to BE/RE of 2013-14, was analysed in audit. Following inconsistencies were noticed.

- In the column meant for BE 2013-14, provision of ₹ 79.04 crore in respect of Ministry of Defence, Ministry of Environment & Forests, and Ministry of Labour & Employment were included afresh in **Form D-6** in the Expenditure Budget Volume-I for 2014-15, which were absent in **Form D-6** in the Expenditure Budget Volume-I for 2013-14.

- In respect of Department of Health Research, a provision of ₹ 98 crore was included in the column meant for BE 2013-14 in Expenditure Budget Volume-I for 2013-14. However, the same was missing in **Form D-6** in the column meant for BE 2013-14 in Expenditure Budget Volume-I for 2014-15.

Thus, **Form D-6** for BE 2013-14 contained total provision of ₹ 1,74,656 crore, which was altered as ₹ 1,74,633 crore for FY 2013-14 in Expenditure Budget Volume-I for 2014-15. No statement or clarification with regard to variations made in the provision for the relevant financial year was given in the Budget documents by the Government.

5.2.4.2 Discrepancies between Budget Estimates and DDG

For FY 2014-15 in respect of Ministry of Housing and Urban Poverty Alleviation, there were discrepancies in the expenditure provision on grants for creation of capital assets included in **Form D-6** and in the Detailed Demands for Grants (DDGs) as detailed in the **Table-12** below.

Table-12: Discrepancies between Budget Estimate and DDG

(₹ in crore)

FY 2014-15	Budget Estimate		Revised Estimate	
	DDG	Form D-6	DDG	Form D-6
	4,026.04	4,004.99	2,230.87	Nil

Comments contained in Paras 5.2.4.1 and 5.2.4.2 points that information furnished to the Parliament in two sets of data viz. **Form D-6** and the DDGs of the Ministries/Departments were not consistent.

In respect of inconsistency and discrepancy in the information furnished through prescribed Forms pointed out by Audit, the Ministry stated (May and June 2016) that the Budget Division of the Ministry compiles such information strictly on the basis of the information furnished by the respective Ministries/Departments and it has no means to verify the facts and figures *furnished. It added that data contained in some statements may be impacted, inter-alia, by any ongoing liquidation and improvement in capture of data, which has been mentioned through appropriate foot note. Ministry also advised the Audit to take up the cases of inconsistency in respect of data of individual Ministry in various Forms with the respective Ministries.*

The reply of the Ministry is against the spirit of the Act and Rules made thereunder. In respect of many information, the reporting year for disclosure mandated under the Act and release of actual figures through the certified accounts of that year are more or less in the same timeframe of the year. The Ministry of Finance needs to have appropriate coordination with all the Ministries/Departments to ensure that correct and consistent figures find place in all the documents which have the linkages. Ministry of Finance, being the focal point for administration of the FRBM Act, should ensure that the information being disclosed under the Act are complete and accurate.

Recommendation: *Disclosure statements prepared under the FRBM Act and Rules made thereunder should be complete in all respect and transparent.*

Conclusion

Transparency in fiscal operations of the Government is an important ingredient to achieve the accurate target of fiscal indicators envisaged under the FRBM Act. However, it was noticed that the Government did not append additional disclosure statements as recommended by Twelfth Finance Commission to bring more transparency in its operations. There was lack of adequate transparency with regard to direct tax receipt figures. Further, the disclosures made by the Government in various Forms envisaged under the FRBM Act were not complete and at variance with other publications, such as Union Government Finance Accounts and Detailed Demands for Grants.

New Delhi
Dated: 18 July 2016

(MUKESH PRASAD SINGH)
Director General of Audit
Central Expenditure

Countersigned

New Delhi
Dated: 18 July 2016

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Annexes

Annex-1.1

(Refer Para No. 1.5)

Disclosure statements mandated under FRBM Act/Rules

Form No.	Details	Disclosure made through
D-1	Tax Revenue raised but not realized	Annex-11 of Receipt Budget
D-2	Arrears of Non-Tax Revenue	Annex-12 of Receipt Budget
D-3	Guarantees given by the Government	Annex-5(iii) of Receipt Budget
D-4	Asset Register	Annex-5(iv) of Receipt Budget
D-5	Liability of Annuity Projects	Annex-8 of Receipt Budget
D-6	Grants for creation of capital assets	Annex-6 of Expenditure Budget Volume-I

Annex-3.1

(Refer Graph 1, 2, 3 and 4)

Deficits, GDP and Grants for creation of capital assets

(₹in crore)

Financial Year	GDP*	Derived from Annual Financial Statement/Union Government Finance Accounts					As per Budget at a Glance				
		Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit	Expenditure on Grants for creation of capital assets	Grants for creation of capital assets as %age of Revenue Deficit	Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit	Expenditure on Grants for creation of capital assets	Grants for creation of capital assets as %age of Revenue Deficit
	1	2	3=2-5	4	5	6=5/2	7	8=7-10	9	10	11
2004-05	32,42,209	78,700	-	1,03,798	-	-	78,338	-	1,25,202	-	-
2005-06	36,93,369	1,09,697	-	1,64,927	-	-	92,299	-	1,46,435	-	-
2006-07	42,94,706	1,32,847	-	1,82,934	-	-	80,222	-	1,42,573	-	-
2007-08	49,87,090	85,435	-	1,64,962	-	-	52,569	-	1,26,912	-	-
2008-09	56,30,063	3,56,377	-	4,34,444	-	-	2,53,539	-	3,36,992	-	-
2009-10	64,77,827	3,52,956	-	4,32,443	-	-	3,38,998	-	4,18,482	-	-
2010-11	77,84,115	2,53,429	-	3,82,642	-	-	2,52,252	-	3,73,591	-	-
2011-12	90,09,722	3,94,918	2,93,687	5,17,881	1,01,231	25.6	3,94,348	2,61,766	5,15,990	1,32,582	33.6
2012-13	1,01,13,281	3,64,582	2,48,872	4,94,514	1,15,710	31.7	3,64,282	2,48,572	4,90,190	1,15,710	31.8
2013-14	1,13,55,073	3,57,303	2,27,465	5,03,230	1,29,838	36.3	3,57,048	2,27,630	5,02,858	1,29,418	36.2
2014-15	1,24,88,205	3,66,228	2,35,468	5,15,948	1,30,760	35.7	3,65,520	2,34,760	5,10,725	1,30,760	35.8

For FY 2014-15, the first revised estimates (R_1) of GDP (new series with 2011-12 as base year) released by CSO on 8 February 2016 has been adopted in this Report and for earlier years old series of GDP figures have been adopted. In CAG's Report No. 50 of 2015 on the accounts for FY 2014-15 of the Union Government, provisional estimates of GDP - ₹ 125,41,208 crore (new series with 2011-12 as base year) published by CSO on 29 May 2015 had been adopted for calculating deficit indicators.

Annex- 3.2

(Refer Para No. 3.2.5.1)

Misclassification of expenditure as reported in Para 4.6 of CAG's Report No. 50 of 2015

Sl. No	Description of Grant	Major head	Object head in which expenditure was incorrectly booked	Amount (₹ *in crore)*
(A) Para No.4.6.1-Misclassification of expenditure of capital nature under revenue head of expenditure				
1.	04-Department of Atomic Energy	2852	51/52/60	16.14
2.		3401	51/52	11.05
3.	20-Ministry of Defence	2037	52	78.62
4.		2075	53	6.84
5.	92-Department of Space	3402	52	35.24
6.	60-Department of Higher Education	2202	53	1.91
7.	62-Ministry of Labour and Employment	2230	52	9.72
8.	106-Ministry of Water Resources	2701	51/52/53	23.60
9.		2702	51/52/53	59.74
10.		2711	51/52	5.33
Total (A)				**248.19**
(B) Para No.4.6.2-Misclassification of expenditure of revenue nature under capital head of expenditure				
1.	04-Department of Atomic Energy	4861	27	54.75
2.		5401	27	3.71
3.	96-Ministry of Tourism	5452	28	1.71
4.	98-Andaman and Nicobar Islands	4801	21	55.54
5.		5052	50	1.05
6.		5452	50	6.23
7.	102- Lakshadweep	4810	35	2.00
Total (B)				**124.99**
(C) Para No.4.6.3-Misclassification of expenditure of revenue nature under capital head of expenditure				
1.	33- Department of Economic Affairs	5475	42	**365.00**
(D) Para No.4.6.4-Misclassification of expenditure of revenue nature under capital head of expenditure				
1.	11-Department of Commerce	5453	53	180.00
2.				1.00
3.	33-Department of Economic Affairs	5466	54	67.00
4.	92-Department of Space	5252 5402	60	10.44
Total (D)				**258.44**
(E) Para No.4.6.4-Misclassification of expenditure of capital nature under revenue head of expenditure				
1.	92-Department of Space	3252 3402	21/50	**274.48**
Understatement of capital expenditure (A+E)				**522.67**
Overstatement of capital expenditure (B+C+D)				**748.43**
Net overstatement of capital expenditure				**225.76**

Annex-3.3

(Refer Para No. 3.2.5.3)

Short transfer of levy/cess collected during financial year 2014-15

(₹ in crore)

Sl. No.	Levy/Cess	Receipts collected	Transfer to the Fund	Short Transfer
1.	**Universal Service Obligation (USO)** Fund was setup in April 2002 to be utilized exclusively for meeting the Universal Service Obligation by providing access to basic telegraph services, viz. public telecommunication and information services and household telephones in rural and remote areas, as may be determined by the Central Government. The resources for meeting the USO Fund are to be credited to the Consolidated Fund of India (CFI) raised through a 'Universal Access Levy' and subsequently transferred to the non-lapsable USO Fund in the Public Account of India for being utilized exclusively towards the stated objectives. (Head 8235.118)	7,537.88	2,086.98	5,450.90
2.	**Prarambhik Shiksha Kosh (PSK)** was created in 2005-06 under non-interest bearing section of the reserve funds in the Public Account. This fund is meant to meet the expenditure requirement for elementary education under the scheme of Sarva Shiksha Abhiyaan and Mid-Day Meal Scheme. For the purpose, a primary education cess of 2 *per cent* is levied on all central taxes. The cess collection is initially credited to the CFI and subsequently transferred after obtaining the Parliamentary authorisation to the PSK to finance the expenditure on elementary education. (Head 8229.127)	24,219.00	22,323.00	1,896.00
3.	**National Clean Energy (NCE)** Fund was established in 2010-11 for funding research and innovative projects in clean energy technology by levying a clean energy cess on coal produced in India and imported coal. The cess credited to the CFI is subsequently transferred to the NCE Fund in the Public Account. (Head 8235.129)	5,393.46	4,700.00	693.46

Sl. No.	Levy/Cess	Receipts collected	Transfer to the Fund	Short Transfer
4.	Cess on **Tea** collected during the year and credited to CFI was to be transferred to Development Fund for Tea Sector. (Head 8229.126)	57.38	0.00	57.38
5.	**Beedi Workers' Welfare (BWW)** Fund was created in the Public Account under BWW Fund Act 1976 to provide for the financing of measures to promote the welfare of persons engaged in Beedi establishment. For this purpose, the Government introduced a cess in the form of duty of excise on manufactured Beedi. The collection of cess is initially credited to the CFI and subsequently transferred through the appropriation to the Beedi Workers Welfare Fund in the Public Account. (Head 8229.200-Other Development and Welfare Funds)	175.32	152.45	22.87
6.	Cess on **Feature Film** collected during the year and credited to CFI was to be transferred to Cine Workers Welfare Fund in the Public Account. (8229.115)	3.84	1.73	2.11
	Total	**37,386.88**	**29,264.16**	**8,122.72**

Annex-4.1

(Refer Para No. 4.2)

Expenditure projection for FY 2014-15

(₹ in crore)

Heads of expenditure		Projections for FY 14-15 (in MTEF Statement for FY 2013-14)	BE for 2014-15	% age change in BE 2014-15 (Col.3 w.r.t Col.2)	RE for 2014-15 in MTEF Statement for FY 2015-16	% age change in RE 2014-15 (Col.5 w.r.t Col.2)
1		2	3	4	5	6
Revenue Expenditure						
Salary		86,578	90,636	4.69	91,847	6.09
Interest		4,14,350	4,27,011	3.06	4,11,354	-0.72
Pension		77,799	81,983	5.38	81,705	5.02
Subsidy						
	Fertilizer	62,274	72,970	17.18	70,967	13.96
	Food	1,20,000	1,15,000	-4.17	1,22,676	2.23
	Petroleum	35,000	63,427	81.22	60,270	72.20
Centralized Provision for Grants to States		1,68,731	1,25,332	-25.72	1,21,121	-28.22
Defence		1,25,116	1,34,412	7.43	1,42,256	13.70
Postal Deficit		6,247	6,908	10.58	6,378	2.10
External Affairs		9,475	9,977	5.30	8,531	-9.96
Home Affairs		16,801	16,542	-1.54	15,602	-7.14
Tax Administration		12,922	2,988	-76.88	13,833	7.05
Finance		16,360	22,277	36.17	24,793	51.55
Education		81,439	71,996	-11.60	59,472	-26.97
Health		33,575	31,624	-5.81	25,228	-24.86
Social Welfare		37,600	35,347	-5.99	30,532	-18.80
Agriculture and Allied		30,094	28,815	-4.25	24,334	-19.14
Commerce and Industry		15,748	16,444	4.42	13,755	-12.66
Urban Development		3,016	15,172	403.05	7,586	151.53
Rural Development		1,12,008	1,06,031	-5.34	86,145	-23.09
Development of North East Region		1,979	2,134	7.83	1,640	-17.13
Planning and Statistics		7,379	6,164	-16.47	5,516	-25.25
Scientific Department		10,402	10,096	-2.94	8,528	-18.02
Energy		12,268	11,197	-8.73	7,335	-40.21
Transport		16,300	17,765	8.99	17,562	7.74
IT and Telecom		6,433	7,194	11.83	4,919	-23.53
UT		6,823	6,167	-9.61	5,655	-17.12

Heads of expenditure	Projections for FY 14-15 (in MTEF Statement for FY 2013-14)	BE for 2014-15	% age change in BE 2014-15 (Col.3 w.r.t Col.2)	RE for 2014-15 in MTEF Statement for FY 2015-16	% age change in RE 2014-15 (Col.5 w.r.t Col.2)
Others	22,913	32,504	41.86	19,241	-16.03
Revenue Expenditure	**15,49,629**	**15,68,111**	**1.19**	**14,88,780**	**-3.93**
***of which* Grants for creation of capital assets**	**2,33,345**	**1,68,104**	**-27.96**	**1,31,898**	**-43.48**
Capital Expenditure					
Defence	94,547	94,588	0.04	83,161	-12.04
Home Affairs	9,870	10,159	2.93	5,859	-40.64
Finance	23,649	16,130	-31.79	11,156	-52.83
Health	3,318	2,068	-37.67	1,050	-68.35
Commerce and Industry	2,370	1,233	-47.97	1,154	-51.31
Urban Development	8,373	9,767	16.65	7,547	-9.87
Planning and Statistics	989	797	-19.41	527	-46.71
Scientific Departments	4,365	3,898	-10.70	2,515	-42.38
Energy	7,561	7,124	-5.78	7,579	0.24
Transport	52,945	54,759	3.43	52,951	0.01
IT and Telecom	2,832	3,993	41.00	915	-67.69
Loans to States	11,880	12,000	1.01	11,900	0.17
UT	2,102	1,727	-17.84	1,484	-29.40
Others	6,661	8,539	28.19	4,580	-31.24
Capital Expenditure	**2,31,462**	**2,26,781**	**-2.02**	**1,92,378**	**-16.89**
Total Expenditure	**17,81,091**	**17,94,892**	**0.77**	**16,81,158**	**-5.61**

Annex-4.2
(Refer Para No. 4.2)

Comparison of expenditure projection for FY 2014-15 with actuals

(₹ in crore)

Heads of expenditure	Projections for FY 14-15 (in MTEF Statement for FY 2013-14)	BE in MTEF Statement /Budget at a Glance for 2014-15	BE in Annual Financial Statement for 2014-15	RE for 2014-15 in MTEF Statement of 2015-16	Actuals (as per Union Government Finance Accounts)	Actuals (as per Budget at a Glance)	% age of variation of actuals (Col.7 w.r.t. Col.2)
1	2	3	4	5	6	7	8
Revenue Expenditure	15,49,629	15,68,111	17,95,396	14,88,780	16,95,137	14,66,992	5.3
of which							
Interest	4,14,350	4,27,011	4,49,883	4,11,354	4,25,098	4,02,444	-2.9
Pension	77,799	81,983	82,983	81,705	93,611	93,611	20.3
Defence	1,25,116	1,34,412	1,39,651	1,42,256	1,45,146	1,36,807	9.3
Postal Deficit	6,247	6,908	7161.22	6,378	6,259*	6,121	-2.0
Capital Expenditure	2,31,462	2,26,781	2,39,747	1,92,378	2,14,007	1,96,681	-15.0
of which							
Defence	94,547	94,588	94,588	83,161	81,887	81,887	-13.4

* Difference between postal expenditure of ₹ 17,894.58 crore and receipt of ₹ 11,635.98 crore.

GLOSSARY	
Annual Financial Statements	In terms of Article 112 of the Constitution the President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year, referred to as the "annual financial statement''. Receipt and disbursements are shown under three parts in which government accounts are kept, viz. (i) Consolidated Fund, (ii) Contingency Fund, and (iii) Public Account.
Budget at a Glance	This document shows in brief, receipts and disbursements along with broad details of tax revenues and other receipts, including break-up of expenditure – Plan and Non-Plan, allocation of Plan outlays by sectors as well as by Ministries/Departments and details of resources transferred by the Central Government to State and Union Territory Governments.
Capital Expenditure	Expenditure of a capital nature is broadly defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent character or of reducing recurring liabilities.
Capital Receipt	Capital receipt comprises of loans raised by the Government, borrowing from the Reserve Bank of India and loans taken from foreign Governments/institutions. It also embraces recoveries of loans advanced by the Government and sale proceeds of government assets, including those realized from divestment of Government equity in PSUs.
Consolidated Fund of India (CFI)	All revenues received by the Government of India, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled the "Consolidated Fund of India" established under Article 266 (1) of the Constitution.
Effective Revenue Deficit	Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. It can be interpreted as the difference between the government's current expenditure (on revenue account) and revenue receipts less grants for creation of capital assets which is recorded as revenue expenditure.
External Debt	Bilateral and multilateral debt contracted by the Government from foreign Governments and financial institutions abroad, mostly in foreign currency.
Finance Accounts	The Finance Accounts presents the accounts of receipts and disbursements together with the financial results disclosed by the revenue and capital accounts, the accounts of the public debt and the liabilities and assets as worked out from the balances recorded in the accounts.
Finance Bill	The Finance Bill is a money bill presented in fulfillment of the requirement under Article 110(1)(a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget for the next financial year. Once the Finance

	Bill is passed by both the houses of the Parliament and assented to by the President, becomes the Finance Act.
Fiscal Deficit	Excess of total disbursements from the Consolidated Fund of India, excluding repayment of debt over total receipts in the Fund, excluding the debt receipts, during a financial year.
Fiscal Policy	The fiscal policy of a Government is concerned with the raising of government revenue and the incurring of government expenditure, to ensure how well the financial and resource management responsibilities have been discharged.
Gross Domestic Product	Gross Domestic Product (GDP) is the monetary value of all finished goods and services produced within a country's borders in specific time period, generally calculated on an annual basis. It includes all private and public consumption, government's outlays, investments and exports less imports that occur within a defined territory. GDP is worked out at constant prices with reference to specified base year and also at current prices (which includes changes in prices due to inflation or a rise in the overall price level).
Guarantees	Article 292 of the Constitution extends the executive power of the Union to giving of guarantees on the security of the Consolidated Fund of India within such limits, if any, as may be fixed by the Parliament.
Internal Debt	Internal Debt comprises loans raised in India. It is confined to loans raised and credited into the Consolidated Fund of India.
Loans and Advances	This include loans and advances given by the Union Government to the State and UT Governments, Foreign Governments, Public Sector Undertakings, Government Servants, etc.
Public Account	All other public moneys than those credited in the Consolidated Fund, received by or on behalf of the Government of India, are credited to the Public Account of India in terms of Article 266 (2) of the Constitution. These are the moneys in respect of which the Government acts more as a banker.
Public Debt	Government debt from internal and external sources contracted in the Consolidated Fund of India is defined as Public Debt.
Revenue Deficit	Excess of revenue expenditure over revenue receipts.
Revenue Expenditure	Charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order and also all other expenses incurred for the day to day running of the organisation, including establishment and administrative expenses are classified as revenue expenditure. Grants given to State/UT Government and other entities are also treated as revenue expenditure, even if some of the grants may be meant for creating capital assets.
Revenue Receipts	These include proceeds of taxes and duties levied by the Government, interest and dividend on investments made by the Government, fees and other receipts for services rendered by the Government.